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Agenda item 36
The situation in the Middle East

Security Council
Sixty-fifth year

**Identical letters dated 6 December 2010 from the Permanent
Representative of Lebanon to the United Nations addressed to
the Secretary-General and the President of the Security Council**

On instructions from my Government, I transmit herewith a letter of complaint against Israeli enemy forces, which, on 3 December 2010, detonated listening devices they had planted inside Lebanese territory (see annex).

I should be grateful if you would have the present letter and its annex circulated as a document of the sixty-fifth session of the General Assembly, under agenda item 36, and of the Security Council.

(Signed) Nawaf Salam
Ambassador
Permanent Representative

**Annex to the identical letters dated 6 December 2010 from the
Permanent Representative of Lebanon to the United Nations
addressed to the Secretary-General and the President of the
Security Council**

Lebanese Republic

Ministry of Foreign Affairs and Emigrants

On Friday, 3 December 2010, at 11.40 a.m., Israeli enemy forces detonated by remote control listening devices they had planted in Lebanese territory at Wadi Qaysiyah on the outskirts of Majdal Silm in the Marj Uyun district opposite the Abbad position in South Lebanon. This occurred after Lebanese workers discovered the Israeli listening devices while digging at that location with an excavator. The detonation caused multiple injuries to Hussein Shahadah and his brother Hassan Shahadah, both of whom had to be taken to hospital for treatment. The planting of listening devices in Lebanese territory by Israeli enemy forces is a blatant violation of Lebanese sovereignty, international law and Security Council resolution 1701 (2006). It yet again affirms Israel's disdain for international resolutions and determination to pursue its aggressive and provocative policies concerning Lebanon, and the threat that Israel persistently poses to international peace and security.

**Security Council**

Distr.: General
10 December 2010

Original: English

**Letter dated 9 December 2010 from the Permanent Representative
of Iraq to the United Nations addressed to the President of the
Security Council**

I have the honour to transmit herewith a letter addressed to you from H.E. Mr. Nouri al-Maliki, Prime Minister of the Republic of Iraq, regarding the extension of the arrangements of the Development Fund for Iraq (DFI) (see annex).

I have further the honour to request that the present letter and its annex be circulated to the members of the Security Council and issued as a document of the Security Council.

(Signed) T. Hamid **Al Bayati**
Ambassador Extraordinary and Plenipotentiary
Permanent Representative



Annex to the letter dated 9 December 2010 from the Permanent Representative of Iraq to the United Nations addressed to the President of the Security Council

[Original: Arabic]

I should like to refer to my letter dated 13 December 2009 addressed to the President of the Security Council, in which I explained that in 2010 the Government of Iraq would put in place appropriate arrangements, in keeping with the Constitution, for the Development Fund for Iraq and the International Advisory and Monitoring Board, with a view to ensuring the continued equitable use of oil revenue in the interests of the Iraqi people, in accordance with international best practices with regard to transparency, accountability and integrity.

Pursuant to Security Council resolution 1905 (2009), the Government of Iraq submitted in its first quarterly report the requisite action plan and timeline for the transition to the successor arrangements for the Development Fund for Iraq and the International Advisory and Monitoring Board. It subsequently submitted its second and third reports on the progress that had been made. In the third report, details were given of the parts of the action plan that had been completed and those that remained incomplete. Reference was also made to the situation in Iraq and the fact that the delay in the formation of a new Government after the legislative elections that took place on 7 March 2010 had, in one way or another, affected the ability of Government institutions to take rapid and effective action with regard to the comprehensive implementation of the action plan.

On the basis of the foregoing, and in order to make it possible to ensure the comprehensive implementation of the action plan and a smooth transition to the successor arrangements, the Government of Iraq is once more in need of the assistance of the international community. It therefore hopes that the Security Council will extend for a further and final six months immunity for the Development Fund for Iraq, on the basis of the arrangements set forth in Security Council resolution 1483 (2003), paragraph 20.

I should be grateful if you would circulate this letter to the members of the Council with the greatest possible expedition and include it as an annex to the resolution currently being drafted on Iraq.

(Signed) Nuri Kamel al-Maliki
Prime Minister of the Republic of Iraq
Baghdad, December 2010



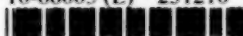
Security Council

Distr.: General
6 December 2010

Original: English

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2009.



**Report of the Board of Auditors to the Security Council
on the financial statements of the United Nations
Compensation Commission for the biennium ended
31 December 2009**

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Chapter I

Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2009 (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Compensation Commission, which comprise the statement of income and expenditure and changes in reserve and fund balances (statement I) for the biennium ended 31 December 2009; the statement of assets, liabilities and reserves and fund balances (statement II) as at 31 December 2009; and the statement of the cash flows (statement III) for the biennium then ended; and the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General of the United Nations is responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as management deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at

31 December 2009 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Without qualifying our opinion referred to above, we draw attention to the following matter. In our previous report (S/2008/509), we noted that the Compensation Commission had undertaken action to recover duplicate payments. The balance outstanding in respect of duplicate payments and other claims amounted to \$46.5 million as at 31 December 2007. In the present biennium, \$30.2 million of the duplicate payments were written off further to a decision of the Governing Council. The remaining balance of \$16.3 million either has been recovered or would be offset against future payments of compensation awards, as described in note 3 (a) (vii).

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, we have also issued a long-form report on our audit of the United Nations Compensation Commission.

(Signed) Terence **Nombembe**
Auditor-General of South Africa
Chair of the United Nations Board of Auditors

(Signed) Didier **Migaud**
First President of the Court of Accounts of France
(Lead Auditor)

(Signed) Liu Jiayi
Auditor-General of China

30 June 2010

Chapter II

Report of the Board of Auditors (long-form report)

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Compensation Commission for the biennium ended 31 December 2009. The audit was carried out through a review of the financial transactions and operations of the Commission at its headquarters in Geneva.

Modified audit report

The Board issued a modified audit report with an emphasis of matter on the financial statements for the period under review, as reflected in chapter I above.

In its previous report (S/2008/509), the Board noted that the Compensation Commission had undertaken action to recover duplicate payments. The balance outstanding in respect of duplicate payments and other claims amounted to \$46.5 million as at 31 December 2007. In the present biennium, \$30.2 million of the duplicate payments were written off further to a decision of the Governing Council. The remaining balance of \$16.3 million either has been recovered or would be offset against future payments of compensation awards, as described in note 3 (a) (vii).

Follow-up of previous recommendations

Of the four recommendations made for the biennium 2006-2007, all (100 per cent) were fully implemented.

Financial overview

For the period under review, total income was \$5.104 billion, compared with \$3.435 billion for the previous biennium, an increase of 48.6 per cent. Total expenditure amounted to \$4.740 billion, compared with \$3.512 billion for the previous biennium, an increase of 35 per cent. This resulted in a net excess of income over expenditure of \$331.5 million after adjustments, compared with a net deficit of \$3.2 million for the preceding biennium.

The increase in expenditure of \$1.228 billion was attributable mainly to the payment of compensation claims. Income increased by \$1.669 billion owing to the situation in the oil market and the higher number of sales by Iraq.

Progress towards the implementation of the International Public Sector Accounting Standards

The progress of the United Nations towards the implementation of the International Public Sector Accounting Standards (IPSAS) and the implementation timeline are applicable to the financial statements of the United Nations Compensation Commission. Therefore, the timeline of the Compensation Commission is dependent upon that of the United Nations Secretariat. The latest information obtained is that the Secretariat has postponed the implementation of IPSAS to 2014 because the new enterprise resource planning system is not yet in place.

Statement of income and expenditure

Of the total expenditure of \$4.740 billion, payments of awards amounted to \$4.735 billion, while administrative expenditure amounted to \$5 million (or 0.1 per cent of total expenditure) compared with \$14 million for the previous biennium.

As stated in note 3 (d), the shortfall in revenues was \$211.6 million, owing to certain transactions made in cash and barter transactions not having been deposited into the Oil Proceeds Receipts Account.

Statement of assets, liabilities and reserves and fund balances

In its previous report (S/2008/509), the Board recommended that the Compensation Commission make a provision to cover the risk of non-recovery of duplicate payments. The Board considered that this recommendation was implemented because an amount of \$30.2 million was written off.

End-of-service liabilities, including after-service health insurance

The financial statements for the period under review reflected end-of-service liabilities amounting to \$3.77 million. Of this amount, \$3.34 million represented after-service health insurance, \$65,000 was related to unused vacation leave credits, \$125,000 represented repatriation benefits and \$241,000 represented termination indemnities.

Internal audit

The Office of Internal Oversight Services (OIOS) issued one report on the United Nations Compensation Commission. The major finding noted by OIOS concerned the lack of audit certificates from third-party auditors in relation to distribution reports. The Board took into account the observations in the OIOS report. It examined the efforts of the Compensation Commission to obtain the missing distribution reports and audit certificates. These findings are included in the present report.

Phasing out

With respect to the future activities of the Compensation Commission, various parties were involved in ongoing negotiations under the auspices of the Compensation Commission regarding the remaining \$24.2 billion of unpaid awards outstanding as at 31 December 2009 (and \$23.5 billion as at 30 March 2010).

Disclosures by management

Management has made certain disclosures in section C of the present report as regards write-off of losses of cash, receivables and property, as well as ex gratia payments.

Recommendations

The Board has made several recommendations based on its audit. The recommendations are that the United Nations Compensation Commission:

- (a) **Disclose a note to the financial statements giving the reasons for the reclassification and restatement of any comparatives (para. 27);**

(b) Obtain up-to-date information on the estimated shortfall in the oil income account (para. 36);

(c) Intensify its efforts to obtain all outstanding distribution reports relating to the payment of claims (para. 44).

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission (UNCC) and has reviewed its operations for the biennium from 1 January 2008 to 31 December 2009 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCC as at 31 December 2009 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNCC operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNCC operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report to it accordingly. Those matters are addressed in the relevant sections of the present report.

4. The Board continues to report the results of audits to the administration of UNCC in the form of management letters containing detailed observations and recommendations. This practice allows for ongoing dialogue with the administration. In this regard, one management letter was issued covering the period under review.

5. The Board coordinates with the Office of Internal Oversight Services (OIOS) in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that could be placed on the latter's work.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council, including specific requests from the General Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, in its report on the financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2007 (A/63/474), the Advisory Committee has requested the Board to:

(a) Strengthen its validation process with a view to improving its ability to evaluate results and efforts to implement the Board's recommendations;

(b) Continue to closely monitor the application of the International Public Sector Accounting Standards (IPSAS) as well as the preparatory process for the enterprise resource planning system;

(c) Continue to follow up on the monitoring of the audit process and on the regular reviews of the nationally executed projects made by United Nations entities.

7. The observations and conclusions of the Board were discussed with the administration, whose views have been appropriately reflected in the present report.

8. The recommendations contained herein do not address steps which UNCC may wish to consider in respect of officials for instances of non-compliance with its financial regulations and rules, administrative instructions and other related directives.

B. Background

9. The Security Council, in its resolution 687 (1991), established the Compensation Commission to determine and resolve claims and administer the Compensation Fund, whereby such claims would be satisfied from monies provided by Iraqi oil sales. During the claims processing stage, which was completed in June 2005, the Commission comprised three components, the Governing Council, the panels of Commissioners and the secretariat. The Governing Council (representatives of Member States in Geneva) is responsible for setting the policy regarding the Compensation Fund, the procedures applicable to resolution of claims and deciding upon awards to be made. The panels of Commissioners, which consisted of "experts on mission", applied the procedures and recommended awards to the Council. The secretariat assisted the panels when they were doing their work and continued to service the Council.

10. The Governing Council is composed of the same Member States as the Security Council and reports on its activities directly to that body after each session. In 1992, it adopted rules for claims procedures, in which it allowed itself to "review the amounts recommended [by the panels of Commissioners] and, where it determines circumstances require, increase or reduce them" (article 40 (I) of the Provisional Rules for Claims Procedure (S/AC.26/1992/10, annex)).

11. The "experts on mission" were chosen for their professional qualifications, experience and integrity as well as geographical representation. As set out in article 18 of the Provisional Rules for Claims Procedure, the Secretary-General requested Member States of the United Nations to provide lists of their most respected and internationally renowned candidates. He then nominated candidates for approval by the Governing Council on the basis of recommendations from the Commission's Executive Secretary. Members of the Governing Council were permitted to consult their own national experts and to review and ask questions about the reports submitted by the panels of Commissioners.

12. As at 31 March 2010, as reflected in table II.1, UNCC had resolved 2,686,131 claims submitted since its inception. It had awarded compensation of \$52.4 billion. Nearly 100 Governments had filed claims on behalf of their nationals, corporations and themselves. These figures have not changed from those as at 1 May 2006 because of the deadlines established for the filing of the various categories of claims (1 January 1995 for the filing of category "A", "B", "C", "D" claims and 1 January 1996 for the filing of category "E" and "F" claims, with the exception of

environmental claims in category "F", which had to be filed before 1 February 1997). As a result, UNCC received no further claims and had ceased carrying out claims appraisals.

13. The Commission awards compensation regardless of the level of resources available. If a claim is approved, it is payable; however, the actual payment or issuance of funds can be delayed. The financial statements disclose only the awards paid or obligated from funds already available in the Compensation Fund.

Table II.1
Claims awarded as at 31 March 2010

(United States dollars)

Category	Number of claims resolved	Number of resolved claims awarded compensation ^a	Compensation sought by claims resolved	Compensation awarded ^a	Percentage of awarded amount against claimed amount	Net compensation paid ^a	Outstanding award amounts
A	923 158	852 499	3 455 092 500	3 149 692 000	91.16	3 117 090 405	—
B	5 734	3 935	20 100 000	13 435 000	66.84	13 377 388	—
C ^{c,d}	1 738 237	672 452	11 503 877 999	5 185 716 912	45.08	5 179 135 818	—
D	11 915	10 343	16 539 501 201	3 348 902 861	20.25	3 348 018 426	—
E1	105	67	44 740 422 417	21 522 047 546	48.1	1 895 814 643	19 623 896 563
E2	2 445	954	13 661 076 541	916 054 517	6.71	913 638 683	1 841 509
E3	398	159	8 538 543 367	402 562 327	4.71	402 563 804	—
E4	3 623	2 868	11 796 336 671	3 456 889 662	29.3	3 458 501 602	—
E/F	123	57	6 148 493 927	311 282 668	5.06	311 282 668	—
F1	100	70	18 902 591 737	291 171 423	1.54	291 171 423	—
F2	63	46	18 417 163 597	264 422 123	1.44	264 099 732	—
F3	62	60	113 905 394 877	8 259 433 226	7.25	4 897 363 973	3 362 069 253
F4	168	109	84 904 244 069	5 261 746 450	6.2	4 706 737 454	553 375 281
Total	2 686 131	1 543 619	352 532 838 903	52 383 356 715	14.86	28 798 796 019	23 541 182 606^e

(Footnotes on following page)

(Footnotes to Table II.1)

Source: UNCC website.

- A Individuals. Programme ended in 1996 but claims processed for Bedouins, Palestinian late claims.
- B Individuals, serious personal injury or whose spouse, child or parent died as a result of invasion and occupation of Kuwait. Programme ended in 1994.
- C Individual claims for damages up to \$100,000 each. Regular programme ended in 1999; in 2002-2003: Palestinian late claims, Bedouins programme.
- D Individual claims for damages above \$100,000 each. Compensation awards during the biennium.
- E Corporations, other private legal entities and public sector enterprises. Compensation awards during the biennium.
- E/F Mixed.
- F Governments and international organizations. Compensation awards during the biennium.
- ^a Figures include corrections to awards pursuant to article 41 of the Provisional rules for claims procedure.
- ^b Figures represent amounts made available and paid to the claimant Governments and submitting entities but are net of all paid but undistributed funds returned to the Commission.
- ^c Including one consolidated claim filed by the Central Bank of the Government of Egypt on behalf of 915,527 of its nationals with approximately 1,240,000 claims (the Egyptian Workers' Claims), with a total asserted value of \$491,098,538. The claim was awarded \$84,393,992 in respect of 223,817 claims.
- ^d Including 31,868 individual claims from *bedouins* for a fixed amount of \$2,500 each, submitted to the Commission by the Government of the State of Kuwait in accordance with the special programme established by the Governing Council at its fifty-second session in June 2004.
- ^e This figure does not include a net amount of \$48,742,332 no longer payable to the claimant Governments and other submitting entities mainly because the claimants were not located by the deadline of 30 September 2006 set by the Governing Council for the location of claimants and the submission of request for the payments. However, it includes \$5,364,242 relating to duplicate and other claims to be recovered from future payments of compensation awards.

14. During the biennium 2008-2009, UNCC paid \$4.735 billion to the Governments of the concerned claimants and to other paying agents, a slight but continuous increase over the previous biennium, as reflected in line 1 of table II.2.

Table II.2
Awards and payments per biennium end

(Millions of United States dollars)

	1996- 1997	1998- 1999	2000- 2001	2002- 2003	2004- 2005	2006- 2007	2008- 2009
1. Compensation awards payments	713	5 414	9 532	3 656	2 069	3 497	4 735
2. Approved awards not yet paid or obligated	5 341	8 499	21 281	30 118	32 521	28 950	24 215

Source: UNCC.

15. As mentioned in note 3 to the financial statements, the awards approved but not yet paid or obligated amounted to \$24.2 billion as at 31 December 2009, pending receipt of funds from oil proceeds further to Security Council resolution 1483 (2003). In his report to the Security Council on the creation of UNCC, the Secretary-General had anticipated that the value of claims approved by the Commission would at any given time far exceed the resources of the Commission (S/22559, para. 28).

16. Arising from a recommendation of the Board made in its report (A/57/5 (Vol. I), chap. II, para. 46), UNCC informed claimants (Governments and other paying agents) that payments depended on available funds and would be implemented only as long as Security Council resolution 687 (1991) was in force, and that Iraq, not the United Nations, was liable for any approved claim.

C. Findings and recommendations

1. Follow-up of previous recommendations

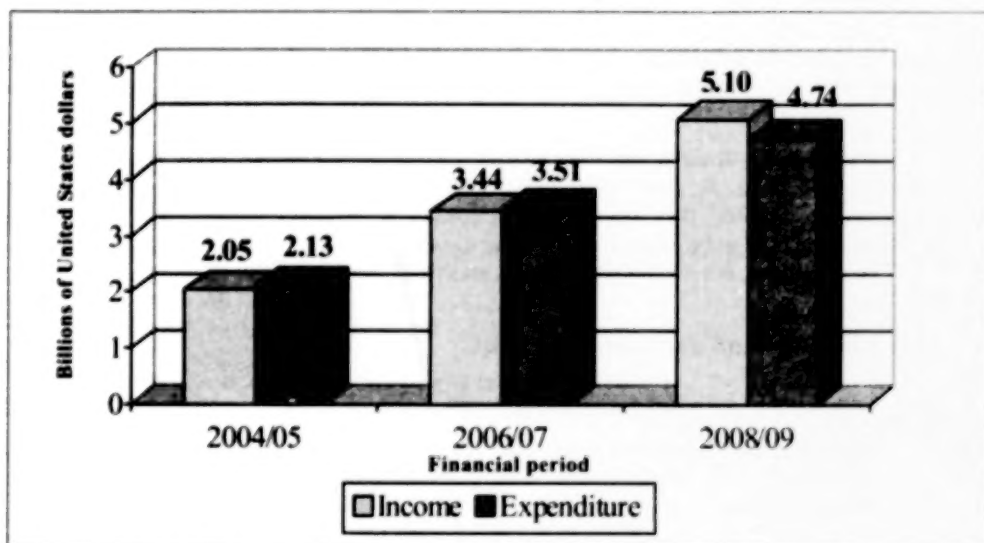
17. Of the four recommendations made for the biennium 2006-2007, all (100 per cent) were fully implemented. Details of the status of implementation of these recommendations are shown at the annex to the present report.

2. Financial overview

18. Total income for the period under review amounted to \$5.104 billion while total expenditure amounted to \$4.740 billion, resulting in an excess of income over expenditure of \$364 million and a net excess of \$331 million after adjustments. Of the total expenditure of \$4.740 billion, payments of awards amounted to \$4.735 billion, while administrative expenditure amounted to \$5 million (0.1 per cent of total expenditure) compared with \$14 million for the previous biennium.

19. Comparative income and expenditure for the financial periods 2004/05, 2006/07 and 2008/09 are shown in figure II.I.

Figure II.1
Comparative income and expenditure



Source: UNCC audited financial statements.

20. The increase in expenditure of \$1.228 billion (from \$3.512 billion for 2006-2007 to \$4.740 billion for 2008-2009) was mainly attributable to the payment of compensation claims. Income increased by \$1.669 billion (from \$3.435 billion for 2006-2007 to \$5.104 billion for 2008-2009) owing to the oil market situation and higher sales by Iraq.

Table II.3
Ratios of key financial indicators

Ratio	Biennium ended 31 December			Component of 2009 ratio ^c
	2005	2007	2009	
Cash/total assets ^b	0.98	0.86	0.92	1 419 720/1 535 167
Cash/liability ^c	15.36	3.51	1.66	1 419 720/857 478
Unliquidated obligations/total liabilities ^d	0.53	0.78	0.0005	440/857 478

^a In millions of United States dollars.

^b A high indicator depicts a healthy financial position.

^c A low indicator is a reflection that insufficient cash is available to settle debts.

^d A low indicator is a positive reflection that obligations are being liquidated.

21. The cash/total assets ratio in table II.3 shows that as at 31 December 2009, 92 per cent of UNCC assets were in the form of cash compared with 86 per cent at the end of 2007. This is in line with the nature of UNCC given that its primary purpose is to award and distribute compensation claims. While the cash/liability indicator declined sharply, from 3.51 in 2007 to 1.66 in 2009, it still remained relatively high and confirmed that UNCC remains capable of meeting its recorded

obligations as determined by the Security Council. The ratio of unliquidated obligations to total liabilities decreased strongly, from 0.78 in 2007 to 0.0005 in 2009. As indicated in paragraph 13 above, the financial statements disclosed only the awards obligated from funds already available in the Compensation Fund. While the financial statements for the previous financial period reflected an increase in committed but unpaid obligations, all obligations that were granted and that could be financed by the Compensation Fund were paid by the end of the period ended 31 December 2009. Unliquidated obligations involved only administrative expenses.

3. Presentation of financial statements

22. Income in the statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007 taken into account in the previous report of the Board (S/2008/509) totalled \$3.450 billion, while income for 2007 as given in the statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009 totalled \$3.435 billion, a difference of \$15.205 million. This difference was due to the decision of the administration to eliminate the line item "transfer from operating reserves".

23. Footnote e/ to statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009 indicates that comparative figures have been reclassified to conform to current presentation.

24. The Board noted, and the administration agreed with this analysis, that this new presentation is owing to the fact that since the reserves and fund balances pertained to income earned in prior years, those transfers to income might not be in accordance with paragraph 32 of the United Nations system accounting standards and distort the results of operations.

25. The administration thus reclassified the 2006-2007 comparatives as disclosed in the 2008-2009 financial statements by deleting the line "transfers from operating reserves to income". Discontinuing these transfers from operating reserves to income had a neutral effect on reserves and fund balances taken into account at the start of the 2008-2009 period.

26. While the Board noted the decision to discontinue the practice of transferring the cumulative surplus in income in the financial statements, it is of the view, however, that reclassification of figures, without any other explanation, did not sufficiently comply with the principle of understandability of financial statements as stated in paragraph 11 of the United Nations system accounting standards.

27. The Board recommends that the administration disclose a note to the financial statements giving the reasons for reclassification and restatement of any comparatives.

4. Progress towards the implementation of the International Public Sector Accounting Standards

28. In accordance with General Assembly resolution 61/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report A/61/350, the Board again performed a gap analysis relating to the implementation of IPSAS as well as the new enterprise resource planning system.

The Advisory Committee had commented on the desirability of such systems taking fully into account the detailed requirements of IPSAS.

29. The progress of the United Nations towards the implementation of IPSAS and the timeline for IPSAS implementation, as detailed by the Secretary-General in his second progress report on the adoption of IPSAS by the United Nations (A/64/355), are applicable to all such financial statements, including those for the United Nations Compensation Commission. Therefore, the timeline for UNCC is dependent upon that of the United Nations Secretariat. The latest information obtained is that the Secretariat has postponed the implementation of IPSAS to 2014 due to the new enterprise resource planning system not being in place.

30. With a secretarial staff of six employees as at 1 April 2010, the Commission had no resources to participate actively in the working groups responsible for facilitating the introduction of IPSAS. However, the finance staff of UNCC were supposed to participate in the online United Nations computer-based training via the Intranet and in an external IPSAS training seminar in Geneva, scheduled to take place in June 2010.

5. Statement of income and expenditure

Revenue not deposited into the Development Fund for Iraq

31. Prior to the adoption of Security Council resolution 1483 (2003), the revenue derived from the oil sales authorized by the Council in its resolution 986 (1995) was deposited in the escrow account. The Council established the Development Fund for Iraq (resolution 1483 (2003)) to be held by the Federal Reserve Bank of New York, on behalf of the Central Bank of Iraq, and to be audited by independent public accountants approved by the Fund's International Advisory and Monitoring Board. The Council decided that 5 per cent of the oil proceeds shall be deposited into the Compensation Fund and that, unless it was decided otherwise by an internationally recognized representative of the Government of Iraq and the Governing Council of the United Nations Compensation Commission, in the exercise of its authority over methods of ensuring that payments are made into the Compensation Fund, this requirement shall be binding on the Government of Iraq.

32. In the light of the Coalition Provisional Authority in Iraq regulation No. 2 (CPA/REG/10 of 2 June 2003), the Federal Reserve Bank of New York established a Central Bank of Iraq/Development Fund for Iraq account. Pursuant to Security Council resolution 1483 (2003) and regulation No. 2, the Federal Reserve Bank was requested to open and maintain on its books an Oil Proceeds Receipts Account for the initial receipt of proceeds of all export sales of oil from Iraq and for the immediate transfer of 95 per cent of such proceeds to the Central Bank of Iraq/Development Fund for Iraq account and 5 per cent of such proceeds to the appropriate United Nations Compensation Fund account. These transfers were effective 22 May 2003.

33. In accordance with Security Council resolution 1483 (2003), an independent firm of public accountants was appointed by the International Advisory and Monitoring Board to report on all export sales of petroleum, petroleum products, and natural gas from Iraq.

34. Note 3 (d) (i) of the financial statements for the period ended 31 December 2009 states that the audited statement of cash receipts and payments for the

Development Fund for Iraq for the year ended 31 December 2008 identified the shortfall in revenues of the Development Fund for Iraq due to certain transactions made in cash and barter transactions not having been deposited into the Oil Proceeds Receipts Account. Had all these proceeds been deposited into the Oil Proceeds Receipts Account, the share of the Compensation Fund from such transactions for the period from inception to 31 December 2008 would have been \$211.6 million. At the time of the Board's audit, the Development Fund for Iraq audit report for the year ended 31 December 2009 was not yet available.

35. The Board noted that UNCC had no control over the initial collection by the Oil Proceeds Receipts Account of the revenue of the sale of Iraqi oil and that the estimated shortfall therefore could not be recorded in the accounts of the Commission.

36. UNCC agreed with the Board's recommendation that it obtain up-to-date information on the estimated shortfall in the oil income account.

Payments of compensation claims

37. Payments of compensation claims increased by 35.4 per cent compared to 2007 (from \$3.497 billion to \$4.735 billion). The compensation awards as at 31 December 2009 represented 99.9 per cent of total expenditures. In 2008 and 2009, UNCC paid \$2.9 billion and \$1.8 billion, respectively, to the Governments of the claimants concerned, a significant increase on the claims paid during the previous period, when the Commission had paid out \$3.5 billion for the biennium 2006-2007.

38. The Commission explained that the increase was due to an increase in funds available for the payment of compensation, which had enabled it to raise the maximum limit for awards payments. In 2004, in accordance with decision 227 of the Governing Council (S/AC.26/Dec.227 (2004)), expenditures in favour of claimants whose claims had been accepted could not exceed a maximum limit of \$200 million every three months. In 2006, that limit was abandoned. By its decision 253 (S/AC.26/Dec.253 (2005)), the Governing Council decided that the total balance of the Compensation Fund, excluding sums allotted to the administrative budget or to the Commission's operating reserve, would be available for the payment of compensation awards.

39. The Commission also informed the Board that payments made since 2006 to date had been in accordance with decision 256 (S/AC.26/Dec.256 (2005)) of the Governing Council, which provided for the priority of payment to claim awards of less than \$500 million and to environmental claim awards. That decision further provided that the available funds should be applied to all claims until all available amounts in the Compensation Fund had been exhausted. Following the completion in January 2010 of the final phase under the payment mechanism set out in decision 256, at its sixty-eighth session, in November 2009, the UNCC Governing Council adopted decision 267 (S/AC.26/Dec.267 (2009)) concerning the payment mechanism and payment of remaining claims. Decision 267 provided that the nine remaining claims, all awarded to Kuwait, in the outstanding amount of approximately \$24 billion, would be paid in \$10 million installments each quarter, in the order in which they were approved, until all available amounts in the Compensation Fund have been exhausted.

Distribution reports

40. Decisions 18 (S/AC.26/Dec.18 (1994)) and 48 (S/AC.26/Dec.48 (1998)) set the rules for distribution reports. Thus, Governments were expected to distribute funds to the applicants within six months of receiving payment from UNCC. At the end of this period, Governments have a maximum of three months to provide information about the amounts distributed (decision 18).

41. As a result of the difficulties experienced by Governments in locating the claimants, in 1998, the Governing Council decided to extend the distribution period by three months. Therefore, at the end of 12 months after a Government had received the payments, any undistributed funds have to be returned to UNCC, together with a list of the unlocated claimants (decision 48).

42. According to the practice, UNCC requests the distribution report from the permanent missions, who themselves solicit a response from their Governments. They complete the distribution reports, following a template provided by UNCC, which indicates the amount of compensation paid, the identity of the recipient and the date of payment.

43. The outstanding distribution reports represented \$1.81 million as at 31 December 2009 and \$1.46 million as at 1 March 2010. All had been outstanding for over one year as shown, in table II.4.

Table II.4

Amounts for which distribution reports were outstanding as at 1 March 2010

(United States dollars)

	<i>Duration of non-compliance</i>		<i>Total</i>
	<i>1 to 2 years</i>	<i>More than 2 years</i>	
India	1 500.00	2 500.00	4 000.00
The former Yugoslav Republic of Macedonia		81 819.00	81 819.00
Pakistan		512 720.89	512 720.89
Tunisia		18 544.53	18 544.53
Yemen		790 949.43	790 949.43
UNHCR Bulgaria		7 500.00	7 500.00
UNHCR Canada		39 700.00	39 700.00
Total	1 500.00	1 453 733.85	1 455 233.85

Source: UNCC.

44. The Board recommends that UNCC intensify its efforts to obtain all outstanding distribution reports relating to the payment of claims.

Audit certificates

45. During its forty-ninth session, from 16 to 18 September 2003, UNCC decided that for any payment made after 18 September 2003 (except for category F, which is not subject to this decision), countries receiving funds from UNCC should include an audit certificate with their distribution reports, in compliance with national

accounting standards, within no more than three months after the end of the year following the year in which the payment was made. An example of an audit certificate was provided to Governments to help them comply more easily with this new requirement. Audit certificates are provided by auditors from the private sector.

46. In paragraph 33 of its previous report (S/2008/509), the Board recommended that the Commission continue to pursue the submission of the remaining audit certificates. UNCC had written to Governments and international organizations requiring them to provide the audit certificates, some of which had not yet been received.

47. Overall, since the first payments in 2003 and as at 16 April 2010, the audit certificates received represent 99.18 per cent of the total amount of payments made to claimants, as shown in table II.5.

Table II.5

Analysis by year of audit certificates outstanding as at 16 April 2010 (excluding category F)

(Thousands of United States dollars)

	2003 payments	2004 payments	2005 payments	2006 payments	2007 payments	2008 payments	Total
Total payments for which audit certificates should be submitted	197 172	786 877	1 144 703	631 425	445 018	446 912	3 652 107
Payments for which audit certificates have been received	196 426	775 110	1 131 498	627 328	444 944	446 912	3 622 218
Percentage of audit certificates received	99.62	98.50	98.85	99.35	99.98	100.00	99.18
Payments for which audit certificates have not been received	746	11 767	13 205	4 097	74	—	29 889
Percentage of audit certificates outstanding	0.38	1.50	1.15	0.65	0.02	—	0.82

Source: UNCC.

48. UNCC explained that it continually and routinely follows up on all outstanding distribution reports and audit certificates and reports to the Governing Council on this matter at each session. As at 16 April 2010, outstanding distribution reports represented 0.0049 per cent of total amounts paid, and the outstanding audit certificates represented 0.82 per cent of all audit certificates due to date.

49. The Board took note of the efforts made by the secretariat to pursue the submission of the remaining audit certificates and will continue to follow up on this issue.

6. Statement of assets, liabilities and reserves and fund balances

Outstanding receivables and duplicate payments

50. The outstanding receivables account increased significantly, from \$63.8 million in 2007 to \$115.4 million in 2009. Unlike the previous biennium, this increase was not due to the recording of duplicate payments, since they had been written off in October 2008, but was owing mainly to the payment of environmental awards by Saudi Arabia.

51. In its previous report, the Board recommended that the Commission make a provision to cover the risk of non-recovery of duplicate payments. The Board considered that this recommendation was implemented. Indeed, \$30.2 million was regarded as a loss on the financial statement I and absorbed by the excess of the period.

52. Note 3, paragraph (c), to the financial statements details measures taken concerning duplicates. The overpayment amounted to \$46.5 million as at 31 December 2007. Of that amount, \$10.9 million was recovered through deduction made in April 2008 from Jordan and refunds received in 2008 from Italy and the United Kingdom of Great Britain and Northern Ireland. Further to the confirmation of the Governing Council at its sixty-fifth session, held on 8 and 9 April 2008, that no further collection efforts should be pursued, \$30.2 million was written off. The authorization for such write-off was given by the Assistant Secretary-General, Controller, in October 2008. The remaining balance as of 31 December 2009 was \$5.4 million, which was expected to be recovered through offset against future payment of compensations awards.

7. End-of-service liabilities (including after-service health insurance)

53. The financial statements for the period under review reflected end-of-service and post-retirement liabilities amounting to \$3.769 million. Of that amount, \$3.338 million represented after-service health insurance, \$65,000 was related to unused vacation leave credits, \$125,000 represented repatriation benefits, and \$241,000 was related to termination indemnities.

54. Previously, the accrued liabilities recorded for after-service health insurance were based on actuarial valuation, whereas the liabilities for repatriation benefits, unused vacation days and termination indemnity were recorded based on current costs without discounting or other adjustments. With effect from the biennium ended 31 December 2009, the liabilities for after-service health insurance, repatriation benefits and unused vacation days were all determined on an actuarial basis.

55. The liabilities were assessed based on a discount rate of 5.5 per cent for the period prior to 31 December 2007 and 6 per cent thereafter. The estimate for commitments for accrued annual leave for employees, repatriation benefits and related expenses was calculated using information available from the IMIS database. These figures are given in greater detail in table II.6.

Table II.6
End of service liabilities as at 31 December

(United States dollars)

	2007			2009		
	UNCC	Environmental programme	Total	UNCC	Environmental programme	Total
After-service health insurance	4 171 000	268 000	4 439 000	3 232 000	106 000	3 338 000
Unused vacation days	230 268	5 256	235 524	62 000	3 000	65 000
Repatriation benefits	603 658	59 514	663 172	108 000	17 000	125 000
Termination indemnities	689 982	—	689 982	241 000	—	241 000
Total	5 694 908	332 770	6 027 678	3 643 000	126 000	3 769 000

Source: UNCC.

56. The difference between the figures for 2007 and 2009 is owing to a change in the discount rate and the decrease in the number of active staff participating that were part of the after-service health insurance and departures in 2007.

8. Internal audit

57. During the biennium 2008-2009, OIOS conducted one audit of the Compensation Commission in Geneva and issued one report dated 21 April 2009 (IAD09-02374). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls in the processing of award payments, including compliance with the Financial Regulations and Rules of the United Nations and decisions of the Compensation Commission Governing Council regarding payments.

58. OIOS observed that UNCC “had adequate controls in place to ensure that awards and payment records were accurate, properly documented and in compliance with the Financial Regulations and Rules of the United Nations and UNCC Governing Council decisions”. The major exception noted by OIOS concerned the missing audit certificates.

59. The Board took into account the observations of OIOS in its report. It examined the efforts of UNCC to obtain the missing distribution reports and audit certificates. These findings are addressed further in the present report.

9. Phasing out

60. Following the conclusion of the claims processing exercise in June 2005, the Compensation Commission saw the scope of its activities reduced to the payment of successful claims. Consequently, the UNCC panels of Commissioners and the claims processing section were dissolved.

61. The phasing out/downsizing of the secretariat took effect as planned in line with the decision taken by the Governing Council at its fifty-eighth session, in December 2005. The downsizing culminated in the departure of many members of

the secretariat staff in July and August 2007 and the closure of the various secretariat sections, such as claims processing, information technology and administration. The Registry had been scheduled to be disbanded at the end of 2008, but following the acceleration of the archiving and disposal programme, it was closed before the end of 2008. The number of posts available (staffing table authorization) in the main fund fell from 10 as at 1 January 2008 to 4 as at 31 December in both 2008 and 2009.

62. As at the date of our audit, the staff of the UNCC secretariat consisted of just four persons, plus two staff members responsible for the follow-up programme for environmental awards. The cost of the staff of the environmental programme (or "REP" fund) was paid for out of the "REP" budget for that programme, which is funded by participating Governments.

63. Since the downsizing, the secretariat had operated with a minimal core staff and continued with: the servicing of the Governing Council; the payment of outstanding awards; the management and administration of the Follow-up Programme for Environmental Awards; and the implementation of the mandate from the Governing Council to the secretariat to facilitate negotiations between Iraq and Kuwait on the unpaid compensation awards that will remain after payment of the environmental awards under its decision 258. Other functions include: following up on the distribution of and reporting on paid award funds in accordance with Governing Council decision 18 and other reporting obligations; and exploring feasible options for the future of the Follow-up Programme for Environmental Awards. Validation of compensation payments and payment of awards are made by the Finance Service of the United Nations Office at Geneva and the Finance Service at United Nations Headquarters, respectively.

64. As at the date of the audit, just nine claims, all in favour of Kuwait, had yet to be paid out of the main fund (Sub-fund of the United Nations Compensation Commission, or CWA). The outstanding payable awards in respect of these claims amounted to \$23.5 billion as at 30 March 2010, and were still the subject of ongoing negotiations between the Governments of Iraq and Kuwait under the auspices of UNCC.

65. With regard to the Follow-up Programme for Environmental Awards, the Governing Council is currently considering possible options for the future of the Programme in accordance with paragraph 6 of its decision 258. The Council had to make a decision in due course as to whether the status quo should continue or changes should be made in the administration of the Programme, in consultation with the four participating claimant Governments and the Government of Iraq.

66. While the payment of compensation awards relating to environmental projects was completed in January 2010, in some cases the environmental projects were expected to reach their conclusion up to 15 years later. The Governing Council had directed the secretariat to convene a panel of experts to prepare an options paper that, without providing conclusions or recommendations on a specific option, provided details of the modalities of feasible options for the future of the Follow-up Programme for Environmental Awards.

67. The panel of experts continued to work on the options paper on the future of the Follow-up Programme for Environmental Awards, and a preliminary report was submitted to the Governing Council at its sixty-eighth session, in November 2009.

The Commission informed the Board that the Governing Council had considered the report of the panel of experts. Recognizing that in order to fulfil the mandate of the Programme, it would not be necessary for UNCC to monitor the environmental awards that would continue until the physical end of the projects and that it should be possible for the purpose and goals of the Programme to be fulfilled in the near term, the Council established a working group for the purpose of further study of the question of future arrangements. The working group met in July 2010.

D. Disclosures by management

1. Write-off of losses of cash, receivables and property

68. In accordance with financial rule 106.8 (a), the Commission informed the Board that a total of \$30.8 million of receivables had been written off during the biennium ended 31 December 2009.

69. This amount concerned duplicate payments of \$30.17 million and payments of \$726,000 resulting from non-submission of distribution reports by four Governments (Benin, Liberia, Niger and Senegal). In accordance with decisions 18 and 48 of the Governing Council, the Governments of those countries were to submit reports to UNCC on funds distributed within 12 months or return the undistributed funds. For more than two years, those Governments did not send information to UNCC in spite of follow-up requests. During its meeting in April 2008, the Governing Council asked the Secretariat to intervene with the four Governments concerned one last time and, if unsuccessful, to request the Controller to write off that amount.

2. Ex gratia payments

70. As required by rule 105.12, the United Nations Compensation Commission reported no ex gratia payments during the biennium ended 31 December 2009.

3. Cases of fraud and presumptive fraud

71. In accordance with the additional terms of reference governing the audit of the United Nations (ST/SGB/2003/7, para. 6 (c) (i)), the United Nations Compensation Commission reported no cases of fraud or presumptive fraud to the Board for the biennium ended 31 December 2009.

E. Acknowledgement

72. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the UNCC Executive Head and members of his staff in Geneva.

(Signed) **Terence Nombembe**
Auditor-General of South Africa
Chairman of the United Nations Board of Auditors

(Signed) **Didier Migaud**
First President of the Court of Accounts of France
(Lead Auditor)

(Signed) **Liu Jiayi**
Auditor-General of China

30 June 2010

Annex

**Status of implementation of the recommendations
of the Board of Auditors for the biennium ended
31 December 2007**

<i>Summary of recommendation</i>	<i>Corresponding paragraphs in S/2008/509</i>	<i>Financial period first made</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
1. UNCC should continue to pursue the submission of the remaining audit certificates	33	2004-2005	X	—	—	—
2. UNCC should make a provision to cover the risk of non-recovery of duplicate payments	40	2004-2005	X	—	—	—
3. UNCC should reconsider the disclosure of the statement of cash flows to include the UNCC share in the United Nations Headquarters cash pool	47	2006-2007	X	—	—	—
4. UNCC should maintain a complete and up-to-date list of non-expendable property by location and reconcile it with the physical inventory	57	2004-2005	X	—	—	—
Total	4		4	—	—	—
Percentage	100		100	—	—	—

Chapter III

Certification of the financial statements

The financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991) for the biennium ended 31 December 2009 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information and clarifications for the financial activities undertaken by the Commission during the period covered by these statements for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991), numbered I to III, are correct.

(Signed) Jun Yamazaki
Assistant Secretary-General, Controller

29 March 2010

Chapter IV

Financial statements for the biennium ended 31 December 2009

Statement I

United Nations Compensation Commission^a

Income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009

(Thousands of United States dollars)

	Compensation Fund	UNCC support for Follow-up Programme for Environmental Awards ^b	Funds withheld from Environmental Awards ^c	Eliminations ^d	Total 2009	Total 2007 ^e
Income						
Allocations from other organizations ^f	5 042 421	—	—	—	5 042 421	3 378 648
Contributions from claimant Governments	—	2 207	—	—	2 207	1 430
Interest income	36 312	153	15 370	—	51 835	43 833
Other/miscellaneous income	7 079 ^g	13	—	—	7 092	11 413
Total income	5 085 812	2 373	15 370	—	5 103 555	3 435 324
Expenditure						
Staff and other personnel costs	2 303 ^h	1 167	—	—	3 470	11 956
Travel	10 ^h	48	—	—	58	89
Contractual services	135 ^h	—	—	—	135	466
Operating expenses	886 ^h	152	—	—	1 038	2 189
Acquisitions	6 ^h	—	—	—	6	12
Compensation awards	4 735 203	—	—	—	4 735 203	3 497 160
Total expenditure	4 738 543	1 367	—	—	4 739 910	3 511 872

	Compensation Fund	UNCC support for Follow-up Programme for Environmental Awards ^b	Funds withheld from Environmental Awards ^c	Eliminations ^d	Total 2009	Total 2007 ^e
Excess (shortfall) of income over expenditure	347 269	1 006	15 370	—	363 645	(76 548)
Non-budgeted accrued income (expense) for after-service health insurance	939	162	—	—	1 101	(1 582)
Prior-period adjustment	(33 263) ^f	—	—	—	(33 263)	74 892
Net excess (shortfall) of income over expenditure	314 945	1 168	15 370	—	331 483	(3 238)
Cancellation of prior-period obligations	77	15	—	—	92	892
Transfer to other funds	(27)	—	—	—	(27)	—
Other adjustments to reserves and fund balances	—	—	(15 370)	—	(15 370)	(7 562)
Reserves and fund balances beginning of period	361 077	434	—	—	361 511	371 419
Reserves and fund balances end of period	676 072	1 617	—	—	677 689	361 511

^a See note 1.

^b See note 4.

^c See note 5.

^d Upon combination of the columns, transactions between the columns are eliminated, in order for a fair presentation of the "total" column.

^e Comparative figures have been reclassified to conform to current presentation.

^f Represents 5 per cent of the proceeds from Iraqi oil sales deposited into the Development Fund for Iraq in accordance with Security Council resolution 1483 (2003). See note 1 (c).

^g Includes awards of \$6,674,987 no longer payable to the claimants owing to expiration of the deadline established by the Governing Council at its fifty-sixth session.

^h Operating expenses are financed from the operating reserve.

ⁱ Represents net decrease in after-service health insurance liabilities in the biennium 2008-2009.

^j Represents the write-off of duplicate and other claims of \$30,169,914, see note 3 (c); and of receivables arising from non-compliance with reporting obligations of \$726,089, and the adjustment of prior-period interest income of \$2,366,966 that is payable to claimant Governments in respect of funds withheld from Environmental Awards.

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations Compensation Commission^a

Assets, liabilities and reserves and fund balances as at 31 December 2009

(Thousands of United States dollars)

	Compensation fund	UNCC support for Follow-up Programme for Environmental Awards ^b	Funds withheld from Environmental Awards ^c	Eliminations ^d	Total 2009	Total 2008 ^e
Assets						
Cash and term deposits	20 770	—	—	—	20 770	30 283
Cash pool ^f	1 393 013	—	—	—	1 393 013	382 705
Offices away from Headquarters cash pool ^g	—	5 937	—	—	5 937	2 988
Inter-fund balances receivable	—	41	740 748	(740 788)	1	—
Other accounts receivable	7 199 ^h	5	108 229 ⁱ	—	115 433	63 839
Deferred charges	13	—	—	—	13	55
Total assets	1 420 995	5 983	848 977	(740 788)	1 535 167	479 870
Liabilities						
Unliquidated obligations — current period	340	100	—	—	440	92 214
Inter-fund balances payable	740 788	—	—	(740 788)	—	11
Other accounts payable	152	6	848 977 ^j	—	849 135	17 899
Deferred income	—	4 134	—	—	4 134	2 207
End-of-service and post-retirement liabilities	3 643 ^k	126 ^l	—	—	3 769	6 028
Total liabilities	744 923	4 366	848 977	(740 788)	857 478	118 359
Reserves and fund balances						
Operating reserve	45 710 ^m	1 617	—	—	47 327	56 039
Cumulative surplus	630 362	—	—	—	630 362	305 472
Total reserves and fund balances	676 072	1 617	—	—	677 689	361 511
Total liabilities and reserves and fund balances	1 420 995	5 983	848 977	(740 788)	1 535 167	479 870

(Footnotes on following page)

(Footnotes to Statement II)

^a See note 1.

^b See note 4.

^c See note 5.

^d Upon combination of the columns, transactions between the columns are eliminated, in order for a fair presentation of the "total" column.

^e Comparative figures have been restated to conform to current presentation.

^f Represents share of the United Nations Headquarters cash pool and comprises cash and term deposits of \$353,610,006, short-term investments of \$343,883,770 (market value \$344,543,838), long-term investments of \$688,296,592 (market value \$696,254,657) and accrued interest receivable of \$7,222,663.

^g Represents share of the United Nations offices away from Headquarters cash pool and comprises cash and term deposits of \$1,991,356, short-term investments of \$1,536,136 (market value \$1,544,557), long-term investments of \$2,378,153 (market value \$2,409,591) and accrued interest receivable of \$31,628.

^h Includes \$1,828,821 advanced to Governments for further distribution to claimants in respect of various compensation awards for which the submission of the distribution reports is pending, and \$5,364,242 relating to duplicate and other claims to be recovered from future payments of compensation awards.

ⁱ Represents funds advanced in respect of Environmental Awards that are to be returned by a claimant Government, pursuant to Governing Council decision 266 requiring that an additional 10 per cent be withheld.

^j Represents funds withheld to be payable to the F4 claimant Governments upon satisfactory completion of environmental project; see note 5.

^k Represents accrued liabilities for after-service health insurance costs of \$3,232,000, for repatriation benefits of \$108,000, for unused vacation days of \$62,000 and for termination indemnity of \$241,000. See note 2 (m) (vi) and note 6.

^l Represents accrued liabilities for after-service health insurance costs of \$106,000, for repatriation benefits of \$17,000 and for unused vacation days of \$3,000.

^m During the biennium 2008-2009, \$5,696,975 was transferred from operating reserve to finance the Commission's operating budget, \$4,171,000 was transferred to fund the Commission's 2007 after-service health insurance liabilities and \$27,094 was transferred to finance the administrative support account for the services provided to the Commission, resulting in an operating reserve of \$45,709,631 as of 31 December 2009.

The accompanying notes are an integral part of the financial statements.

United Nations Compensation Commission^a

Statement III

Cash flows for the biennium ending 31 December 2009

(Thousands of United States dollars)

	Compensation fund	UNCC support for Follow-up Programme for Environmental Awards ^b	Funds withheld from Environmental Awards ^c	Eliminations ^d	Total 2009	Total 2008 ^e
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	314 945	1 168	15 370	—	331 483	(3 238)
(Increase) decrease in inter-fund balances receivable	26	(41)	(740 748)	740 762	(1)	—
(Increase) decrease in other accounts receivable	56 591	44	(108 229)	—	(51 594)	(58 269)
(Increase) decrease in deferred charges	7	35	—	—	42	16
Increase (decrease) in unliquidated obligations	(91 813)	39	—	—	(91 774)	78 689
Increase (decrease) in inter-fund balances payable	740 788	(37)	—	(740 762)	(11)	(2 775)
Increase (decrease) in other accounts payable	(17 747)	6	848 977	—	831 236	8 743
Increase (decrease) in deferred income	—	1 927	—	—	1 927	2 207
Increase (decrease) in end-of-service and post-retirement liabilities	(2 052)	(207)	—	—	(2 259)	6 028
Less: interest income	(36 312)	(153)	(15 370)	—	(51 835)	(43 833)
Net cash flows from operating activities	964 433	2 781	—	—	967 214	(12 432)
Cash flows from investing activities						
Interest income	36 312	153	15 370	—	51 835	43 833
Net cash flows from investing activities	36 312	153	15 370	—	51 835	43 833
Cash flows from financing activities						
Cancellation of prior-period obligations	77	15	—	—	92	892
Transfer to other funds	(27)	—	—	—	(27)	—
Other adjustments to reserves and fund balances	—	—	(15 370)	—	(15 370)	(7 562)
Net cash flows from financing activities	50	15	(15 370)	—	(15 305)	(6 670)
Net increase (decrease) in cash and term deposits and cash pools	1 000 795	2 949	—	—	1 003 744	24 731

	Compensation fund	UNCC support for Follow-up Programme for Environmental Awards ^b	Funds withheld from Environmental Awards ^c	Eliminations ^d	Total 2009	Total 2007 ^e
Cash and term deposits and cash pools, beginning of period	412 988	2 988	—	—	415 976	391 245
Cash and term deposits and cash pools, end of period	1 413 783	5 937	—	—	1 419 720	415 976

^a See note 1.

^b See note 4.

^c See note 5.

^d Upon combination of the columns, transactions between the columns are eliminated, in order for a fair presentation of the "total" column.

^e Comparative figures have been restated to conform to current presentation.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1

United Nations Compensation Commission

(a) The United Nations Compensation Commission (the Commission) was established in 1991 in accordance with Security Council resolution 692 (1991) subsequent to Security Council resolution 687 (1991), to process and pay claims for direct loss, damage, or injury arising from Iraq's invasion and occupation of Kuwait;

(b) By its resolution 705 (1991), the Security Council adopted the Secretary-General's suggestions that the level of Iraq's contribution to the Compensation Fund shall not exceed 30 per cent of the annual value of its exports of petroleum and petroleum products. By its resolution 986 (1995), the Security Council approved the allocation of 30 per cent of the proceeds from the sale of Iraqi oil to the Compensation Fund. Pursuant to Security Council resolution 1330 (2000), the allocation to the Compensation Fund was decreased from 30 per cent to 25 per cent effective 6 December 2000;

(c) By its resolution 1483 (2003), the Security Council reduced the level of Iraq's contribution to the Compensation Fund, effective 22 May 2003, to 5 per cent, and decided that it would remain at that level until such time as an internationally recognized, representative Government of Iraq and the UNCC Governing Council decide otherwise.

Note 2

Summary of significant accounting and financial reporting policies of the United Nations Compensation Commission

(a) The accounts of the United Nations Compensation Commission are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The Commission follows International Accounting Standard 1 — Presentation of Financial Statements, on the disclosure of accounting policies, as modified and adopted by CEB as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons therefore;
- (ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;
- (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

- (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
- (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;
- (b) The Commission's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect activities of each fund or of a group of funds of the same nature;
- (c) The financial period of the Commission is a biennium and consists of two consecutive calendar years;
- (d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;
- (e) The accounts of the Commission are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements reflect the cash, investments and current accounts receivable and payable in currencies other than the United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference;
- (f) The Commission's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services;
- (g) The cash flow summary statement is based on the "indirect method" of cash flow as referred to in the United Nations system accounting standards;
- (h) The Commission's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management;
- (i) The results of the Commission's operations presented in statements I, II and III are shown by general type of activity as well as on a combined basis for all funds. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds;
- (j) Income:
 - (i) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(ii) Income received under inter-organization arrangements represents allocations of funding from agencies to enable the Commission to administer projects or other programmes on their behalf;

(iii) Interest income includes all interest earned on deposits in various bank accounts and investment income earned in the United Nations cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with operation of investments in the cash pool are allocated to the Commission;

(iv) Miscellaneous income includes awards no longer payable to claimants owing to expiration of the deadline established by the Governing Council at its fifty-sixth session, income from the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(v) Income for future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in note 2 (m) (iii);

(k) Expenditures:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in note 2 (l) (v).

(l) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) The cash pool comprises the Commission's share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the United Nations cash pool. Investments in the cash pool are similar in nature. Short-term investments are stated at lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with the United Nations General Fund. Inter-fund balances are settled periodically, dependent upon availability of cash resources;

(iv) Provision for delays in collection of receivable balances is not made;

(v) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vi) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(vii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Commission. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements;

(m) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for "reserves and fund balances" shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Current period obligations remain valid for 12 months following the end of the biennium to which they relate, after which the remaining balances are cancelled and returned to the Compensation Fund as savings on, or cancellation of, prior-period obligations;

(v) Other accounts payable includes amounts withheld with respect to environmental projects pursuant to the Governing Council decision 258, which shall be released in phases, upon the successful completion of the related phase;

(vi) Accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits, unused vacation days and termination indemnity. Previously, the accrued liabilities recorded for after-service health insurance were based on actuarial valuation, whereas the liabilities for repatriation benefits, unused vacation days and termination indemnity were recorded based on current costs without discounting or other adjustments. With effect from the biennium ended 31 December 2009, the liabilities for after-service health insurance, repatriation benefits and unused vacation days are all determined on an actuarial basis. The change with respect to the repatriation benefits and unused vacation days is considered to be a change in accounting policy. The change, which is in accordance with paragraph 18 of the United Nations system

accounting standards, is made in order for more reasonable estimates of these liabilities to be incorporated into the financial statements. See note 6;

(vii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(viii) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. An actuarial valuation of the Pension Fund assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, the United Nations is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus the United Nations share of the related net liability/asset position of the Pension Fund is not reflected in the financial statements. The Organization's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the Organization, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the reporting date of the current financial statement, the General Assembly had not invoked this provision.

Note 3

Statements I, II and III

(a) Compensation claims

As of 31 December 2009, compensation awards of \$24,215,388,995 have been approved by the Governing Council of the Commission but not yet paid or obligated pending receipt of funds from the sales of oil proceeds further to Security Council resolution 1483 (2003);

(b) Awards of interest

With respect to awards of interest, the Governing Council of the Commission decided, in its decision 16 in 1992, that interest would be awarded from the date the loss occurred until the date of payment, at a rate sufficient to compensate successful claimants for the loss of use of the principal amount of the award; that the methods of calculation and of payment of interest would be considered by the Governing Council at the appropriate time; and that interest would be paid after the principal amount of awards. In this respect, the Governing Council, at its meeting on 10 March 2005, took a final decision concerning the payment of interest on awards of compensation. Governing Council decision 243 provides that the Council will take no further action with respect to the issue of awards of interest, which effectively means that no payments of interest shall be made on awards of

compensation. This decision of the Governing Council has been communicated to all claimant Governments;

(c) Duplicate and other claims

(i) During the biennium 2006-2007, the UNCC secretariat determined through its investigations that duplicate and other claims amounted to \$74,891,642, which were recorded in the financial statements for the biennium ended 31 December 2007. In this context, the Governing Council decided at its fifty-ninth session, held in March 2006, that confirmed overpayments identified as a result of the investigation would be corrected under article 41 of the Provisional Rules for Claims Procedure;

(ii) At its sixtieth session, in June 2006, the Governing Council decided that Governments and other submitting entities would be requested to take all practicable steps ("best efforts") to attempt to recover overpaid amounts from claimants and to remit the received funds to UNCC within certain deadlines;

(iii) At its sixty-first session, held on 31 October and 2 and 3 November 2006, the Governing Council decided that Governments and other submitting entities would be responsible for the amount to be recovered that was "identifiable" (i.e., that could reasonably have been detected prior to or at the time of payment) but not the amount that was "non-identifiable" (i.e., that would have been difficult, if not impossible, for submitting entities to detect). It was also decided that all "identifiable" overpayment not recovered would be set off against the final payment made to a Government in respect of a governmental or quasi-governmental award;

(iv) At its sixty-second session, held from 20 to 22 February 2007, the UNCC secretariat reported its findings on duplicate and other claims to the Governing Council, which approved corrections to nearly 30,000 claims in four article 41 reports. Furthermore, the Governing Council took note of the report by the UNCC secretariat on the "best efforts" responses received from claimant Governments to date;

(v) At the sixty-third session, held from 20 to 22 June 2007, the Working Group of the Governing Council received and considered the final results of the "best efforts" following expiry of the set deadlines. In the light of efforts made by the submitting entities and the amounts recovered through the "best efforts" exercise, the Working Group noted that continuing "best efforts" would result in only limited recoveries. The Working Group recommended that submitting entities be requested to remit any further funds they receive from claimants and that the UNCC secretariat report on further recoveries at future sessions of the Governing Council;

(vi) As a result of recoveries and offsets, the balance outstanding in respect of duplicate and other claims as of 31 December 2007 had been reduced to \$46,463,685;

(vii) During 2008, \$10,929,529 was recovered and, further to the confirmation of the Governing Council at its sixty-fifth session that no further collection efforts should be pursued, \$30,169,914 was written off. The remaining balance as at 31 December 2009 is \$5,364,242, which is expected to be recovered through offset against future payments of compensations awards;

(d) Sale of Iraqi oil: cash and barter transactions

(i) Further to Security Council resolution 1483 (2003), effective 22 May 2003, 5 per cent of all proceeds from export sales of Iraqi oil are to be transferred to the Compensation Fund. In accordance with the resolution, an independent firm of public accountants was appointed by the International Advisory and Monitoring Board to report on the all export sales of petroleum, petroleum products and natural gas from Iraq. The reports showed weaknesses in the internal control systems such that it was not possible to determine the shortfall in revenues. The audited statement of cash receipts and payments for the Development Fund for Iraq for the year ended 31 December 2008 identified the shortfall in revenues of the Development Fund for Iraq owing to certain transactions having been made in cash and barter transactions not having been deposited into the Oil Proceeds Receipts Account. Had all these proceeds been deposited into that account, the share of the Compensation Fund from such transactions for the period from inception to 31 December 2008 would have been \$211.6 million. The audit report for the year ended 31 December 2009 is not currently available;

(ii) The Governing Council of the Compensation Commission is provided with an update on this matter regularly, with the most recent update at its sixty-eighth session, in November 2009. The Governing Council was informed that the mandate of the International Advisory and Monitoring Board is expiring at the end of 2009, and the responsibility for oversight of Iraqi oil revenues shall transfer to the Iraq Committee on Financial Experts. The Governing Council highlighted the importance of retaining current arrangements for continued receipt of 5 per cent of Iraqi oil revenues after the expiration of the mandate of the International Advisory and Monitoring Board. The Governing Council also requested, *inter alia*, that the secretariat continue to follow up on this issue with the Iraq Committee on Financial Experts and the Controller, and that it keep the Council advised of any further developments.

Note 4

United Nations Compensation Commission support for the Follow-up Programme for Environmental Awards

The Governing Council created the Follow-up Programme for Environmental Awards through its decision 258 in December 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia ("claimant Governments"), as a mechanism for monitoring the financial and technical aspects of various environmental projects being undertaken by the claimant Governments with funds awarded by the Commission. The Programme is financed by the claimant Governments through deductions from their respective shares of specified awards.

Note 5

Funds withheld from Environmental Awards

(a) A special account was established in order to account for funds withheld pursuant to Governing Council decisions 258 and 266 in April 2009, and accrued interest thereon;

(b) The Governing Council decided in its decision 258 in December 2005 to withhold 15 per cent of the total F4 environmental awards that are subject to the Follow-up Programme for Environmental Awards from the last payments to each participating Government of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, and to release the withheld amounts upon satisfactory completion of the environmental projects. In April 2009, the Governing Council further decided, in its decision 266, that an additional amount equivalent to 10 per cent of the value of each of the five phased environmental projects with awards greater than \$50 million, shall be retained pending further decisions of the Governing Council. The funds withheld by UNCC under decisions 258 and 266 of the Governing Council are retained in a special account in the United Nations;

(c) Further, in accordance with Governing Council decision 268 in November 2009, interest accrued on the funds withheld under decisions 258 and 266 shall be transferred to the respective Governments annually to be used for the implementation of the environmental projects.

Note 6

Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits, commutation of unused vacation days and termination indemnity. As disclosed in note 2 (m) (vi), with effect from the biennium ended 31 December 2009, the liabilities for after-service health insurance, repatriation benefits and unused vacation days are all determined on an actuarial basis, which was undertaken by an independent, qualified actuarial firm.

(b) After-service health insurance

(i) Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health-insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007, and 5 years for those who were recruited prior to that date. This benefit is referred to as after-service health insurance;

(ii) The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2009 were a discount rate of 6.0 per cent; health-care escalation rates of 8.4 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and of 6.0 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for medical plans outside of the United States; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. By comparison, the assumptions used to determine the liabilities for after-service health insurance as at 31 December 2007 were a discount rate of 5.5 per cent; health-care escalation rates of 9.5 per cent in 2008, grading down to 5.0 per cent in 2015 and later years for United States medical plans, and of 5.7 per cent in 2008, grading down to 4.5 per cent in 2012 and later years for medical plans outside the United States. There were no changes in the Pension Fund retirement, withdrawal and mortality assumptions since the 2007 valuation;

(iii) Another factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the Organization's residual liability. Thus, contributions from retirees are deducted from the gross liability and, commencing with the 31 December 2009 valuation, a portion of the contributions from active staff is also deducted to arrive at the Organization's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Organization's share shall not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the medical insurance plan. This refinement in determination of plan participant contributions is reflective of the fact that both active and retired staff participate in the same health insurance plans and that their collective contributions serve to meet the approved cost-sharing ratios;

(iv) On the basis outlined in (ii) and (iii) above, the present value of the accrued liability as of 31 December 2009, net of contributions from plan participants was estimated at \$3,338,000. This reflects actuarial gains of \$1,465,000 resulting from the updating and refinement in actuarial assumptions noted under (ii) and (iii) above and based on updated census, health insurance claims and other data;

(Thousands of United States dollars)

<i>After-service health insurance liability</i>	<i>Accrued liability</i>
Gross liability	6 676
Offset by contributions from plan participants	(3 338)
Net liability	3 338

(v) Further to the assumptions in b (ii) above, it is estimated that the present value of the liability would increase by 18 per cent or decrease by 15 per cent, respectively, if the medical cost trend is increased or decreased by 1 per cent, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 19 per cent or decrease by 15 per cent respectively, if the discount rate is decreased or increased by 1 per cent, all other assumptions remaining constant;

(c) Repatriation benefits

(i) Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits;

(ii) As referred to in note 2 (m) (vi), a consulting actuary was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2009. Previously, the liabilities for repatriation benefits were calculated on the basis of current costs as at the reporting date, without discounting or other adjustments;

(iii) The major assumptions used by the actuary were a discount rate of 6.0 per cent, annual salary increases ranging from 10.6 per cent to 5.5 per cent based on age and category of the staff members, and travel cost increases of 4.0 per cent per annum;

(iv) On the basis of these assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2009 was estimated at \$125,000;

(v) The change in accounting policy to an actuarial basis for measuring the liability for repatriation benefits has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation as at 31 December 2007. Had the former, current-cost methodology been continued, the liability would have been \$202,000 as at 31 December 2009. Hence, the effect of adopting this new policy in the current period is a decrease in both the liabilities and expenditures in the amount of \$77,000;

(d) Unused vacation days

(i) Upon end of service, staff members may commute unused vacation days, up to a maximum of 60 working days, for those holding fixed-term or continuing appointments;

(ii) As referred to in note 2 (m) (vi), a consulting actuary was engaged to carry out an actuarial valuation of unused vacation days as at 31 December 2009. Previously, the liabilities for unused vacation days were calculated on the basis of current costs as at the reporting date, without discounting or other adjustments;

(iii) The major assumptions used by the actuary were a discount rate of 6.0 per cent, and an annual rate of increase in accumulated annual leave balances of 15 days in the first year, 6.5 days per year in the second to sixth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days. Salaries are assumed to increase annually at rates ranging from 10.6 per cent to 5.5 per cent based on age and category of the staff members;

(iv) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2009 was estimated at \$65,000;

(v) The change in accounting policy to an actuarial basis for measuring the liability for unused vacation days has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation as at 31 December 2007. Had the former, current-cost methodology been continued, the liability would have been \$93,000 as at 31 December 2009. Hence, the effect of adopting this new policy in the current period is a decrease in both the liabilities and expenditures in the amount of \$28,000;

(vi) Termination indemnity

Some staff members are entitled to a termination indemnity, should the Commission terminate their appointments. The liability of the Commission for such costs as at 31 December 2009 is estimated to be \$241,000.

Note 7**Non-expendable property**

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Commission, but is charged against the current allotment in the year of purchase. The Commission's non-expendable property, valued at historical cost as at 31 December 2009 is as follows (in thousands of United States dollars):

	2008-2009
Balance at 1 January 2008	993
Add: acquisitions	16
Less: dispositions	(747)
Other adjustments ^a	1
Balance as at 31 December 2009	263

^a Comprises net adjustments, including those arising from physical inventory count.

Note 8**Future operations**

(a) Following the completion of claims processing, the Governing Council decided at its fifty-eighth session to retain a residual Commission in Geneva comprising two components: (a) the Governing Council; and (b) a secretariat at a reduced scale.

(b) The secretariat's main functions are: to provide support to the Governing Council and its meetings; to implement the Council's decisions; to continue to pay the remaining awards to successful claimants, which were approximately \$24.2 billion as at 31 December 2009; to oversee the Follow-up Programme for Environmental Awards; and to administer the funds withheld from environmental awards.



Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the United Nations Board of Auditors on the United Nations escrow (Iraq) accounts for the biennium ended 31 December 2009.

**Report of the Board of Auditors on the audit of the
United Nations escrow (Iraq) accounts established under
the provisions of Security Council resolutions 687 (1991),
706 (1991), 778 (1992), 986 (1995), 1284 (1999) and
1483 (2003) for the biennium ended 31 December 2009**

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**Letter dated 30 June 2010 from the Secretary-General to the
Chair of the United Nations Board of Auditors**

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2009, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(Signed) **BAN Ki-moon**

**Letter dated 30 June 2010 from the Chair of the
United Nations Board of Auditors to the President of
the Security Council**

I have the honour to transmit to you the financial statements of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2009, which were submitted by the Secretary-General. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including the audit opinion thereon.

(Signed) Terence **Nombembe**
Auditor-General of the Republic of South Africa
Chair, United Nations Board of Auditors

I. Report of the Board of Auditors (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), which comprise the statement of assets, liabilities and reserves and fund balances (statement II) as at 31 December 2009; and the statement of income, expenditure and changes in reserves and fund balances (statement I) and the cash flow statement (statement III) for the biennium then ended; and the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements, which have been prepared on a liquidation basis of accounting, present fairly, in all material respects, the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2009 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations escrow (Iraq) accounts that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations escrow (Iraq) accounts.

(Signed) **Terence Nombembe**
Auditor-General of the Republic of South Africa
Chair of the United Nations Board of Auditors

(Signed) **Liu Jiayi**
Auditor-General of the People's Republic of China
(Lead Auditor)

(Signed) **Didier Migaud**
First President of the Court of Accounts of France

30 June 2010

II. Report of the Board of Auditors (long-form report)

Summary

The Board of Auditors (the Board) has audited the financial statements of the United Nations escrow (Iraq) accounts, established under the provisions of Security Council resolutions relating to Iraq, for the biennium ended 31 December 2009. The audit was carried out through a review of the financial transactions covering the sixth year of the phase-down operations, and took into account the audit assurance obtained when the Board expressed its audit opinion on the financial statements for the year ended 31 December 2008.

Audit opinion

The Board issued an unmodified audit opinion on the financial statements prepared on a liquidation basis of accounting for the period under review, as reflected in chapter I.

Follow-up of previous recommendations

The two recommendations made for the year ended 31 December 2008 (S/2009/314) were still under implementation, as indicated in the annex to the present section.

Financial overview

For the period under review, total income was \$44.02 million, compared with \$149.61 million for the previous biennium, a decrease of 71 per cent. Total expenditure amounted to \$21.47 million, compared with \$117.95 million for the previous biennium, a decrease of 82 per cent. This resulted in an excess of income over expenditure of \$22.54 million, compared with an excess of \$31.65 million in the preceding biennium.

Total cash resources (cash and term deposits and cash pool) amounted to \$955.90 million as at 31 December 2009, compared with \$1.04 billion as at 31 December 2007, a decrease of 8 per cent. The cash resources of the "Humanitarian activities in Iraq" account, amounting to \$932.39 million, were sufficient to cover the \$268.02 million of current and prior-year unliquidated obligations arising from approved contracts for humanitarian activities.

As indicated in note 2(l)(iv), effective 1 January 2000, unliquidated obligations for the "Humanitarian activities in Iraq" account remained valid until completion of the oil-for-food programme. All other obligations continued to remain valid for 12 months following the end of biennium to which they relate.

Liquidation activities and status of the oil-for-food programme

There were 69 letters of credit outstanding as at 31 December 2009, compared with 210 as at 31 December 2007, a reduction of 141. The liquidation continued to be hampered by the delay in the issuance of authentication documents by the Government of Iraq despite the repeated calls of the Security Council and the Secretary-General.

Reserves and fund balances

As at 31 December 2009, the total reserves and fund balances amounted to \$686.65 million, including \$1.73 million of reserves for end-of-service and post-retirement benefits, and \$206.02 million of reserves for any unanticipated claims from suppliers and expected administrative costs during liquidation. These reserves and fund balances mainly relate to the humanitarian activities in Iraq and the administrative and operational costs.

Recommendations

The Board has made a number of recommendations based on its audit. The main recommendations are that the Administration:

(a) **Expedite the settlement of the outstanding account payables and receivables of the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and transfer all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007);**

(b) **Keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq.**

The Board's other recommendation appears in paragraph 16 of the present section.

A. Mandate, scope and methodology

1. The Board of Auditors (the Board) has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) and has reviewed its liquidation activities for the biennium from 1 January 2008 to 31 December 2009 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2009 and the results of operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. According to note 3(a), since the activities of the United Nations escrow (Iraq) accounts are in the liquidation stage, the financial statements were presented on the liquidation basis of accounting. This may require realization of assets and extinguishment of liabilities outside the normal course of business. As at 31 December 2009, the Administration indicated that the escrow accounts had no assets or liabilities requiring adjustment or classification under the liquidation basis of accounting.

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

5. The two recommendations made for the year ended 31 December 2008 (S/2009/314) were under implementation, as indicated in the annex to the present section. Those recommendations related to:

(a) Settling the outstanding accounts payable and receivables of UNMOVIC, and transferring all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007);

(b) Keeping under review the matter of transferring the unencumbered funds to the Development Fund for Iraq.

6. While the Board noted the efforts by the Administration to implement those recommendations, it nevertheless urges the Administration to expedite the full implementation of the recommendations as early as possible.

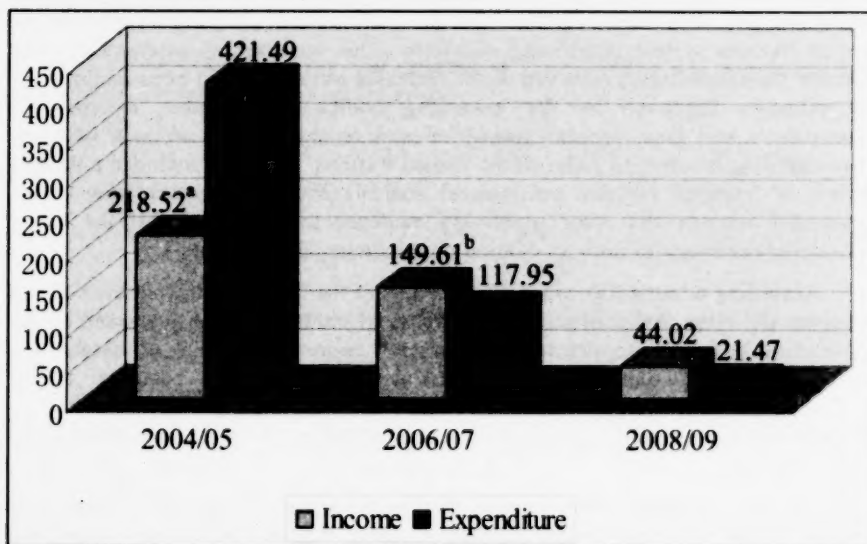
2. Financial overview

7. Total income for the period under review amounted to \$44.02 million while total expenditure amounted to \$21.47 million, giving an excess of income over expenditure of \$22.54 million. Comparative income and expenditure for the financial periods 2004/05, 2006/07 and 2008/09 are shown in figure 1.

Figure 1

Comparative income and expenditure for the financial periods 2004/05 to 2008/09

(Millions of United States dollars)



Note: Based on the audited financial statements.

^a For the purpose of comparison, the amount of total income of the biennium 2004-2005 was restated by deducting \$37.24 million of "funding from operating reserves" from the original amount of \$255.76 million to conform to the current presentation.

^b The amount of total income of the biennium 2006-2007 was restated by deducting \$12.98 million of "funding from operating reserves" from the original amount of \$162.59 million to conform to the current presentation.

8. The decrease in income of \$105.59 million, or 71 per cent, during the period under review was attributable mainly to (a) the currency exchange loss of \$11.80 million; and (b) the decline in interest income from \$100.61 million in 2006-2007 to \$40.55 million.

9. The decrease in expenditure of \$96.48 million, or 82 per cent, was attributable mainly to a reduction of \$86.46 million for the purchase of humanitarian supplies and spare parts. From the inception of the oil-for-food programme up to

31 December 2009, total expenditures for the purchase of humanitarian supplies and spare parts reached \$43.91 billion, as shown in table 1.

Table 1

Expenditures for humanitarian supplies and spare parts, 1996 to 2009

(Thousands of United States dollars)

<i>Period</i>	<i>Humanitarian supplies</i>	<i>Spare parts</i>	<i>Total</i>
1996-1997	2 401 843	—	2 401 843
1998-1999	6 026 701	344 687	6 371 388
2000-2001	19 988 807	2 368 641	22 357 448
2002-2003	11 119 750	1 286 236	12 405 986
2004-2005	200 358	79 387	279 745
2006-2007	86 554	1 701	88 255
2008-2009	0	1 794	1 794
Total	39 824 013	4 082 446	43 906 459

Note: Based on data provided by the Administration.

10. Total cash resources (cash and term deposits and cash pool) amounted to \$955.90 million as at 31 December 2009, compared with \$1.04 billion as at 31 December 2007, a decrease of 8 per cent. The cash resources of the "Humanitarian activities in Iraq" account, amounting to \$932.39 million, were sufficient to cover the \$268.02 million of current and prior year's unliquidated obligations arising from approved contracts for humanitarian supplies and spare parts.

11. As indicated in note 2(1)(iv), effective 1 January 2000, unliquidated obligations for the "Humanitarian activities in Iraq" account remained valid until completion of the oil-for-food programme. All other obligations continued to remain valid for 12 months following the end of biennium to which they relate.

12. In his letter dated 11 March 2008 to the President of the Security Council (S/2008/175), the Secretary-General suggested transferring \$100 million unencumbered fund to the Development Fund for Iraq pursuant to Security Council resolution 1483 (2003). In his response dated 23 May 2008 (S/2008/341), the President of the Security Council informed the Secretary-General that the members of the Council had recommended that all unencumbered funds associated with the oil-for-food programme remain in the United Nations escrow (Iraq) accounts until such time as all outstanding issues had been resolved. As a result, the total transfers to the Development Fund for Iraq decreased from \$371.11 million in 2006-2007 to \$5.98 million in 2008-2009.

3. Presentation of financial statements

13. Footnote d/ to the statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009 indicates that comparative figures in relation to income have been restated to conform to current presentation.

14. This revised presentation was attributable to the fact that since the reserves and fund balances pertained to income earned in prior years, the transfer to income might not be in accordance with paragraph 32 of the United Nations system accounting standards, and would distort the results of operations.

15. The Administration reclassified the 2006/2007 comparative as disclosed in the 2008/2009 financial statements, by deleting the line "funding from operating reserves". Although discontinuing the transfer from operating reserves to income had a neutral effect on reserves and fund balances, the Board is however of the view a separate note to the financial statements explaining the reasons for the reclassification would enhance the quality of financial reporting.

16. The Board recommends that the Administration disclose as a separate note to the financial statements the reasons for reclassification and restatement of any comparative.

17. The Administration commented that comparative information is provided for information purposes only, and if required, reclassifications of the prior periods are made in order to comply with the format of the current period. However, in order to further enhance the understandability of financial statements and further to United Nations system accounting standards paragraph 11, the Administration considered that additional disclosures might be made in future financial statements, where there are material or significant reclassifications or restatements of comparative information.

4. Liquidation activities and status of the oil-for-food programme

Liquidation activities

18. Following the adoption of Security Council resolution 1483 (2003), the oil-for-food programme was terminated on 21 November 2003. The Administration continued to wind down and liquidate the escrow (Iraq) accounts, and arrangements and progress were regularly reported to the Security Council. In his letter to the Security Council dated 8 November 2007 (S/2007/661), the President of the Security Council conveyed the Council members' affirmation that the oil-for-food programme would be terminated by 31 December 2007. The Security Council later extended the time limit to resolve outstanding issues until 30 June 2008 through the letter dated 23 May 2008 from the President of the Council to the Secretary-General (S/2008/341). At the time of audit, the programme was still under liquidation, and there was no further extension from the Security Council, in relation to the closure of the programme.

19. At meetings between the representatives of the Government of Iraq and the Secretariat in November 2007, it was agreed that a Working Group made up of members of the Secretariat, the Ministry of Foreign Affairs of the Government of Iraq, the Central Bank of Iraq and the concerned ministries of the Government of Iraq would be set up to resolve issues arising from the unpaid letters of credit with claims of delivery related to the programme. In 2008, three meetings of the Working Group were held to address and resolve outstanding issues. No meeting was held in 2009.

20. In his letters to the President of the Security Council dated 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318) and 25 July 2008 (S/2008/492), the Secretary-General reported to the Security Council the outcomes of the meetings of

the Working Group, the continuing arrangements for the liquidation of the outstanding letters of credit and the slow progress being made. He indicated that the Working Group had proposed three alternatives to be considered by the Security Council in order to conclude all outstanding issues. In his report pursuant to paragraph 5 of resolution 1859 (2008) (S/2009/385), the Secretary-General further indicated that in view of the progress in the liquidation activities, including the considerable decrease in the number of outstanding letters of credit, some of the alternatives considered by the Working Group at the time might no longer be appropriate. Although the Security Council took note of the matter, no further response to these three proposals had been received from the Security Council at the time of audit.

21. In his letter dated 1 May 2009 to the President of the Security Council (S/2009/230) and in his report pursuant to paragraph 5 of resolution 1859 (2008) (S/2009/385), the Secretary-General kept the Security Council informed of the continuing arrangement and status of the remaining activities relating to the programme.

22. In addition, in his report pursuant to paragraph 5 of resolution 1859 (2008) (S/2009/385), the Secretary-General indicated that the Security Council might have the option of cancelling the remaining letters of credit with outstanding claims of delivery, subject to the provision by the Government of Iraq of a comprehensive indemnity with regard to all activities of the Organization, its representatives and agents in connection with the oil-for-food programme since its inception and with regard to the funds that had been transferred and would be transferred to the Development Fund for Iraq. The report also stated that the conclusion of the outstanding activities of the oil-for-food programme should also be subject to the availability of sufficient funds for the Organization to meet the costs and expenses that had been incurred or might be incurred in future connection with the oil-for-food programme, including the costs and expenses associated with the winding-down of the oil-for-food programme and the costs and expenses originating from the United Nations cooperation with Member States in respect of investigations and proceedings related to the oil-for-food programme.

Letters of credit

23. Under existing procedures pursuant to Security Council resolution 986 (1995) and subsequent Security Council resolutions relating to the Programme, payments cannot be made to suppliers who have delivered goods and services in Iraq without the receipt of the corresponding authentication documents from the Central Bank of Iraq on behalf of the Government of Iraq. In the absence of authentication documents, letters of credit with claims of delivery would remain unresolved and the corresponding cash collateral would continue to be held in the United Nations escrow (Iraq) accounts.

24. There were 69 letters of credit outstanding valued at \$265.94 million as at 31 December 2009, as reflected in table 2, compared with 210 valued at \$656.25 million as at 31 December 2007, a reduction of 141. For the period under review, (a) 85 letters of credit were cancelled; (b) 7 letters of credit were fully paid; and (c) 49 letters of credit were partially paid and their remaining balances were cancelled. With the cancellation of the letters of credit, the corresponding cash collateral was released from the collateral portion to the non-collateral portion of the

United Nations escrow (Iraq) accounts and the unliquidated obligations were cancelled accordingly.

Table 2

Outstanding letters of credit as at 31 December 2009

(Thousands of United States dollars)

<i>Expiration date</i>	<i>Number of letters of credit</i>	<i>Amount</i>
2004	11	13 517
2005	2	802
2006	28	84 592
2007	28	167 030
Total	69	265 941

Note: Based on the data from the designated bank.

25. In addition to the 69 outstanding letters of credit issued under the oil-for-food programme as at 31 December 2009, the Secretariat had identified three letters of credit amounting to \$4.88 million whose beneficiaries had made claims of delivery prior to the expiry of the associated letters of credit and whose letters of credit had been cancelled. In his letters to the President of the Security Council dated 25 July 2008 (S/2008/492) and 1 May 2009 (S/2009/230), the Secretary-General recommended that whatever option might be selected by the Security Council for concluding all outstanding issues under the programme, these three letters of credit should be treated in the same manner as those letters of credit with claims of delivery still outstanding.

26. Should the Security Council decide to treat the three letters of credit in the same manner as those letters of credit listed in table 2, the total amount of letters of credit still outstanding as at 31 December 2009 would amount to 72.

Processing of authentication documents

27. More than six years after the announcement of the termination of the oil-for-food programme in November 2003, the Secretary-General repeatedly expressed in his letters to the President of the Security Council his concern over the chronic problem of the slow provision or non-provision of the necessary authentication documents by the Government of Iraq. The Secretary-General reiterated the need for the Government of Iraq to redouble its efforts to process the authentication documents relating to letters of credit promptly, so as to make it possible to terminate the operation of the programme.

28. In his letter to the Secretary-General dated 23 May 2008 (S/2008/341), the President of the Security Council strongly encouraged the Government of Iraq to do its utmost, in liaison with the Secretariat of the United Nations, to expedite the processing of the remaining letters of credit.

29. The Board is concerned that the liquidation activities continue to be hampered by the delay in the issuance of authentication documents by the Government of Iraq despite the repeated calls of the Security Council and the Secretary-General. This

has delayed the termination of the oil-for-food programme, with no timetable to resolve all outstanding issues and to complete the closure of the programme.

Development Fund for Iraq

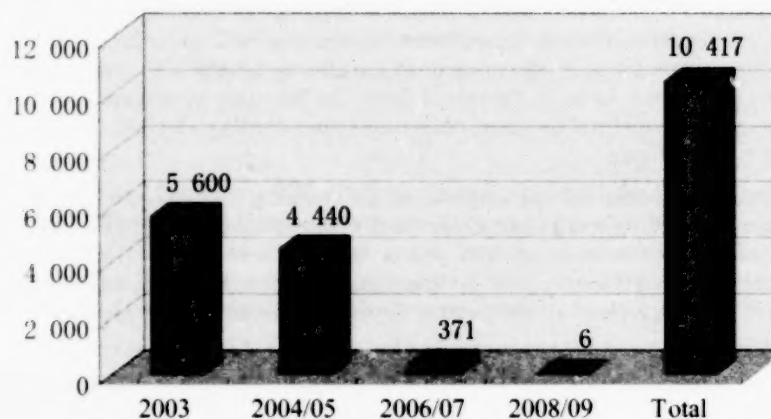
30. The Development Fund for Iraq was established pursuant to Security Council resolution 1483 (2003), which mandated, inter alia, that unencumbered funds from the oil-for-food programme be transferred to the Fund. As shown in figure II, from the adoption of Security Council resolution 1483 (2003) up to 31 December 2009, total transfers to the Fund amounted to \$10.42 billion, including transfers of \$5.98 million in the biennium 2008-2009.

31. The mandate of the Board does not include auditing of the activities or financial records of the Fund. This is undertaken by independent auditors selected by the International Advisory and Monitoring Board for Iraq, which is an oversight body for the Fund.

Figure II

Funds transferred to the Development Fund for Iraq from 2003 to 2009

(Millions of United States dollars)



Note: Based on data provided by the Administration.

"Monitoring, verification and inspection" account

32. By its resolution 687 (1991), the Security Council established the United Nations Special Commission (UNSCOM) to carry out immediate on-site inspection of Iraq's biological, chemical and missile capabilities. Noting that Iraq had not complied with the Council's resolutions 686 (1991) and 687 (1991), the Council, by its resolution 1284 (1999), established the UNMOVIC, which replaced UNSCOM and took over all of its assets, liabilities and archives. The costs of UNMOVIC were met from the funds deposited in an escrow account established under Security Council resolution 986 (1995).

33. By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC and requested the Secretary-General to transfer to the Government of

Iraq through the Development Fund for Iraq not later than three months from the date of adoption of the resolution, all remaining unencumbered funds in the account established pursuant to paragraph 8 (e) of resolution 986 (1995), after returning to Member States at their request contributions made by them pursuant to paragraph 4 of resolution 699 (1991).

34. From the adoption of resolution 1762 (2007) to 31 December 2009, \$28.53 million was transferred from the UNMOVIC account to the Development Fund for Iraq. As at 31 December 2009, the total assets of UNMOVIC amounted to \$1.32 million, while the corresponding liabilities amounted to \$252,000, resulting in reserves and fund balances of \$1.07 million.

35. The Board noted that the UNSCOM and UNMOVIC archives had been transferred to the Archives and Records Management Section, per the request of the Secretary-General's Bulletin on the records and archives of the United Nations Monitoring, Verification and Inspection Commission (ST/SGB/2009/12).

36. In the Board's report on the financial statements of the United Nations escrow (Iraq) accounts for the 12-month period ended 31 December 2008 (S/2009/314), the Board had recommended that the Administration settle the outstanding account payables and receivables, and transfer all remaining unencumbered funds to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007). At the time of audit, the recommendation was still under implementation. The Administration was in the process of liquidating UNMOVIC and settling the accounts receivable. As at 31 December 2009, the balances of accounts receivable, accounts payable and unliquidated obligations amounted to \$16,000, \$81,000 and \$171,000, respectively.

37. The Board noted that the disposal of the chemical laboratory in Kuwait was the major outstanding issue with respect to the complete liquidation of UNMOVIC, as the costs for the disposal had yet to be determined. The United Nations Assistance Mission for Iraq was in final stages of submitting the request to the Assistant Secretary-General for Central Support Services for the approval of the said disposal.

38. The Administration agreed with the Board's reiterated recommendation to (a) expedite the settlement of the outstanding account payables and receivables of UNMOVIC; and (b) transfer all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007).

5. Independent inquiry into the oil-for-food programme

39. In April 2004, the Secretary-General appointed a high-level Independent Inquiry Committee to investigate the administration and management of the oil-for-food programme. Although the work of the Committee was substantially completed in 2005, its term was extended to assist the authorized law enforcement and regulatory agencies in cases arising from its work.

40. On 1 January 2007, the Committee wound up its operation, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office of the Committee was being performed by the representative designated by the former members of the Committee and his or her designees. In September 2008, the Secretary-General

approved the recommendation of the representative of the Office of the Committee to extend its mandate until 31 December 2010. The costs of the Office of the Committee in the biennium 2008-2009, which amounted to \$723,817, were met from the "Administrative and operational costs" account.

6. Accounts and financial reporting

Reserves and fund balances

41. Paragraph 17 of Security Council resolution 1483 (2003) adopted on 22 May 2003 states that after deducting all relevant United Nations expenses associated with the shipment of authorized contracts and costs to the Programme outlined in paragraph 16 (c) of the resolution, including residual obligations, all surplus funds in the escrow accounts established pursuant to paragraph 8 (a), 8 (b), 8 (d) and 8 (f) of resolution 986 (1995) should be transferred at the earliest possible time to the Development Fund for Iraq.

42. As at 31 December 2009, the total reserves and fund balances amounted to \$686.65 million, comprising \$1.73 million of reserves for end-of-service and post-retirement benefits; \$206.02 million of reserves for any unanticipated claims from suppliers and expected administrative costs during liquidation; and \$478.90 million of cumulative surplus. The total reserves and fund balances mainly relate to the humanitarian activities in Iraq and the administrative and operational costs.

43. In the note attached to his letter dated 11 March 2008 to the President of the Security Council (S/2008/175), the Secretary-General suggested transferring \$100 million of unencumbered funds to the Development Fund for Iraq pursuant to Security Council resolution 1483 (2003). In the letter dated 23 May 2008 (S/2008/341), the President of the Security Council informed the Secretary-General that the members of the Council had taken note of the possibility of transferring unencumbered funds to the Fund, and recommended that all unencumbered funds associated with the programme remain in the United Nations Iraq Escrow Account until such time as all outstanding issues were resolved.

44. In its report (S/2009/314), the Board had recommended that the Administration keep under review the matter of transferring the unencumbered funds to the Fund. At the time of audit, the recommendation was under implementation. The Administration kept the Security Council informed of the status of the termination of the operations related to the letters of credit issued against the oil-for-food programme, and raised the issue of the slowness in the receipt of authentication documents before the Security Council and the Government of Iraq.

45. By its resolution 1905 (2009), the Security Council decided to extend the mandates of the Development Fund for Iraq and the International Advisory and Monitoring Board to 31 December 2010, and requested the Government of Iraq to provide an action plan and timeline for the transition from the Fund.

46. In the light of the absence of a timetable to resolve the outstanding issues and to complete the closure of the escrow accounts, as well as the possible termination of the mandate of the Fund, the Board is concerned about the continuing delay in the transfer of the unencumbered balances from the escrow accounts.

47. The Administration agreed with the Board's reiterated recommendation to keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

48. The Administration informed the Board that, in accordance with financial rule 106.9 of the Financial Regulations and Rules of the United Nations, no property losses (\$1.4 million in 2006/07) had been written off during 2008/09. In accordance with the rule 106.8, losses amounting to \$2,415 (2006/07: \$ nil) had been written off in respect of accounts receivable. This write-off relates to a long outstanding debt arising from an overpayment to a former staff member.

2. Ex gratia payments

49. In accordance with the rule 105.12 of the Financial Regulations and Rules, the Administration reported no ex gratia payments during the biennium 2008-2009.

3. Cases of fraud and presumptive fraud

50. The Administration informed the Board that there were no cases of fraud and presumptive fraud that relate to the United Nations escrow (Iraq) accounts for the period under review. However, the Board was informed that there were investigations being conducted by member countries on their own nationals and companies that were related to the oil-for-food programme. The Administration stated that it was not privy to the specific allegations being investigated by Member States, as well as guilty pleas that had been entered regarding prosecutions in two Member States.

D. Acknowledgement

51. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Secretary-General, the Under-Secretary-General for Management, the Assistant Secretary-General and Controller and members of their staff.

(Signed) Terence Nombembe
Auditor-General of the Republic of South Africa
Chair of the United Nations Board of Auditors

(Signed) Liu Jiayi
Auditor-General of the People's Republic of China
(Lead Auditor)

(Signed) Didier Migaud
First President of the Court of Accounts of France

30 June 2010

Annex

Status of implementation of the Board's recommendations for the biennium ended 31 December 2007^a and for the 12-month period ended 31 December 2008 of the biennium 2008-2009^b

<i>Summary of recommendations</i>	<i>Paragraph Reference</i>	<i>Financial period first made</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
Continue to pursue with the designated bank the review and release of cash collaterals associated with the expired letters of credit with no claims of delivery	26 ^a	2006-2007	X	—	—	—
Settle the outstanding account payables and receivables of UNSMOVIC, and transfer all remaining unencumbered funds to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007)	22 ^b	2008	—	X	—	—
Keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq	33 ^b	2008	—	X	—	—
Total number of recommendations			1	2	—	—
Percentage of total number of recommendations			33	67	—	—

^a S/2008/510.^b S/2009/314.

III. Certification of the financial statements

1. The financial statements for the United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2009 have been prepared in accordance with financial rule 106.10.
2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.
3. I certify that the appended financial statements of the United Nations escrow (Iraq) accounts, numbered I to III, are correct.

(Signed) Jun **Yamazaki**
Assistant Secretary-General, Controller

29 March 2010

IV. Financial statements for the biennium ended 31 December 2009

Statement I

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq^a

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)	Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007) ^b	Resolutions 687 (1991), 706 (1991), 1284 (1999) ^c	Other activities	Total 2009	Total 2008 ^d
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification and inspection			
Income						
Interest income	38 829	1 470	254	—	40 553	100 612
Miscellaneous income	2 557	850	57	—	3 464	1 541
Currency exchange adjustments ^e	—	—	—	—	—	47 452
Total income	41 386	2 320	311	—	44 017	149 605
Expenditure						
Purchase of humanitarian supplies	—	—	—	—	—	86 554
Purchase of spare parts ^f	1 794	—	—	—	1 794	1 701
Administrative expenses	—	4 446	2 336	370	7 152	27 134
Independent Inquiry Committee expenses ^g	—	724	—	—	724	2 565
Currency exchange adjustments ^h	11 803	—	—	—	11 803	—
Total expenditure	13 597	5 170	2 336	370	21 473	117 954
Excess (shortfall) of income over expenditure	27 789	(2 850)	(2 025)	(370)	22 544	31 651
Prior-period adjustments	—	(2)	—	—	(2)	(26 331)
Net excess (shortfall) of income over expenditure	27 789	(2 852)	(2 025)	(370)	22 542	5 320
Cancellation of prior-period obligations	281 641	198	180	1	282 020	480 339
Transfers to Development Fund for Iraq	(2 557)	—	(3 423)	—	(5 980)	(371 105)
Transfers (to) from the United Nations and other agencies	—	—	—	—	—	(3 749)

	Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007) ^a		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007) ^a		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007) ^a	
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification and inspection	Other activities	Total 2009	Total 2010 ^b
Transfers (to) from other funds ^c	—	(250)	—	250	—	—
Reserves and fund balances, beginning of period	356 963	24 633	6 335	139	388 070	277 265
Reserves and fund balances, end of period	663 836	21 729	1 067	20	686 652	388 070

^a There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period; see also notes 1 and 3.

^b Refers to the United Nations Monitoring Verification and Inspection Commission; see note 3.

^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991); see note 3.

^d Restated to conform to the current presentation.

^e Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.

^f Expenditure incurred relating to adjustments and reinstatements of contracts entered into in previous years. This expenditure includes unliquidated obligations of \$1,265,519.

^g See note 4.

^h The portion of expenditures that relates to disbursements is met from operating reserves; see note 5.

ⁱ Represents transfers to the Development Fund for Iraq held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003); see notes 7 (e) and 7 (f).

^j Represents transfer of \$250,000 to the High-level Coordinator for the missing Kuwaitis and third countries citizens and missing Kuwaiti property, as authorized by the Security Council.

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq^a

Statement of assets, liabilities and reserves and fund balances as at 31 December 2009

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2003) ^b		Resolutions 687 (1991), 706 (1991), 1284 (1999) ^c	
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification and inspection	Other activities	Total 2009	Total 2007
Assets						
Cash and term deposits	932 390	25	41	—	932 456	1 009 111
Cash pool	—	22 186 ^d	1 262 ^e	—	23 448	35 651
Accounts receivable						
Inter-fund balances receivable ^f	—	334	—	35	369	139
Inter-agency accounts receivable	—	—	—	—	—	4 624
Other accounts receivable	8	10	16	7	41	181
Deferred charges	—	—	—	—	—	18
Total assets	932 398	22 555	1 319	42	956 314	1 049 724
Liabilities						
Unliquidated obligations — current year	1 266 ^g	762	171	5	2 204	84 063
Unliquidated obligations — prior years	266 751 ^h	—	—	—	266 751	573 449
Accounts payable						
Inter-fund balances payable ^f	545	—	32	—	577	3 852
Other accounts payable	—	64	49	17	130	290
Total liabilities	268 562	826	252	22	269 662	661 654
Reserves and fund balances						
Operating reserves ⁱ						
Reserves for end-of-service and post-retirement benefits	—	1 730	—	—	1 730	3 380
Other reserves	187 000	18 195	825	—	206 020	211 043

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007) ^b		Resolutions 687 (1991), 706 (1991), 1284 (1999) ^c	
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification and inspection		Other activities	
Cumulative surplus	476 836	1 804	242		20	173 647
Total reserves and fund balances	663 836	21 729	1 067		20	388 070
Total liabilities and reserves and fund balances	932 398	22 555	1 319		42	1 049 724

^a There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period; see also notes 1 and 3.

^b Refers to the United Nations Monitoring Verification and Inspection Commission; see note 3.

^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991); see note 3.

^d Represents share of the United Nations Headquarters cash pool for "Administrative and operational costs", comprising cash and term deposits \$5,631,907, short-term investments \$5,476,998 (market value \$5,487,511), long-term investments \$10,962,422 (market value \$11,089,169) and accrued interest receivable \$115,035.

^e Represents share of the United Nations Headquarters cash pool for "Monitoring, Verification and Inspection" comprising cash and term deposits \$320,435 short-term investments \$311,621 (market value \$312,219), long-term investments \$623,721 (market value \$630,933) and accrued interest receivable \$6,545.

^f See note 2 k (iv).

^g Unliquidated obligations incurred during the January 2008 to December 2009 period for spare parts relating to adjustments and reinstatements of contracts entered into in previous years.

^h See note 7 (d).

ⁱ See note 5.

The accompanying notes are an integral part of the financial statements.

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq^a

Statement of cash flows for the biennium ended 31 December 2009

	Resolutions 986 (1995) and 1483 (2003)	Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2002)*	Resolutions 687 (1991), 706 (1991), 1284 (1999)*	Total
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification and inspection	Other activities
Cash flows from operating activities				
Net excess (shortfall) of income over expenditure (Statement 1)	27 789	(2 852)	(2 025)	(370)
(Increase) decrease in inter-fund balances receivable	—	(334)	—	104
(Increase) decrease in inter-agency accounts receivable	4 624	—	—	—
(Increase) decrease in other accounts receivable	97	34	14	(5)
(Increase) decrease in deferred charges	—	7	11	—
Increase (decrease) in unliquidated obligations	(388 821)	303	(43)	—
Increase (decrease) in inter-fund accounts payable	528	(315)	(3 488)	4
Increase (decrease) in inter-agency accounts payable	—	—	—	—
Increase (decrease) in other accounts payable	—	(110)	(66)	—
Increase (decrease) in other liabilities	—	—	—	16
Less: interest income	(38 829)	(1 470)	(254)	—
Net cash from operating activities	(394 612)	(4 737)	(5 851)	(251)
Cash flows from investing activities				
Interest income	38 829	1 470	254	—
Net cash from investing activities	38 829	1 470	254	—
Cash flows from financing activities				
Cancellation of prior period obligations	281 641	198	180	1
Transfers to the Development Fund for Iraq	(2 557)	—	(3 423)	—
Transfers (to) from the United Nations and other agencies	—	—	—	—
Transfers (to) from other funds	—	(250)	—	250

^a There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period; see also notes 1 and 3.
^b Refers to the United Nations Monitoring Verification and Inspection Commission; see note 3.
^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991); see note 3.
^d Reclassified to conform to the current presentation.

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Notes to the financial statements

Note 1

United Nations escrow account established under the provisions of Security Council resolution 986 (1995) (statements I, II and III)

(a) An escrow account to be administered by the Secretary-General was established in 1996 in order to receive the proceeds from the sale of Iraqi oil approved by the Security Council in resolution 986 (1995). In paragraph 1 of that resolution, the Security Council authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of \$1 billion every 90 days. In paragraph 3 of that resolution, the Council decided that the provision should remain in force for 180 days.

(b) The authorization given in paragraph 2 of resolution 986 (1995) permitted Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after the deduction of 30 per cent for the Compensation Fund. In resolution 1330 (2000), the Security Council revised this deduction to 25 per cent. Owing to the cessation of the oil-for-food programme, pipeline tariff charges are no longer incurred.

(c) The provision of resolution 986 (1995) authorizing sales of Iraqi oil not exceeding a total of \$1 billion every 90 days remained in force until 30 May 1998 in accordance with Security Council resolutions 1111 (1997), 1129 (1997), 1143 (1997) and 1158 (1998).

(d) The Security Council, in paragraph 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States in paragraph 1 of resolution 986 (1995) should permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of \$5.256 billion, in the 180-day period referred to in paragraph 1 of resolution 1153 (1998). This provision remained in force in accordance with resolutions 1210 (1998), 1242 (1999) and 1281 (1999).

(e) By resolution 1284 (1999), of 17 December 1999, the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This provision remained in force in accordance with resolutions 1302 (2000), 1330 (2000), 1352 (2001) which extended the provisions of resolution 1330 (2000) for 30 days, and 1360 (2001), which extended the mandate period for 150 days, 1382 (2001), 1409 (2002), 1443 (2002), which extended the provisions of resolution 1409 (2002) until 4 December 2002, and 1447 (2002) which extended the mandate period to 3 June 2003. The final sale of oil under the programme was for shipment made on 20 March 2003.

(f) The Security Council, in paragraphs 1 and 3 of resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment ("spare parts") to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998), and decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of \$300 million might be used to

meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to \$600 million might be used to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retained the \$600 million limit.

(g) Security Council resolution 1330 (2000) allowed for funds up to €600 million from the escrow account to be used for the cost of installation and maintenance, including training services, of spare parts and equipment relating to the oil industry.

(h) In its resolution 1472 (2003) of 28 March 2003, the Security Council recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the programme, and authorized the Secretary-General to make such changes for a period of 45 days.

(i) In its resolution 1476 (2003) of 24 April 2003, the Security Council decided that the provisions contained in paragraph 4 of resolution 1472 (2003) should remain in force until 3 June 2003 and might be subject to further renewal by the Council.

(j) In its resolution 1483 (2003) of 22 May 2003, the Security Council requested the Secretary-General to terminate the programme within six months and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority (the Authority). The Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) (relating to 15 Governorates of central and southern Iraq) and 8 (b) (relating to 3 Governorates of northern Iraq) of resolution 986 (1995).

(k) Sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from the sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded since 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given in paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes set out in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it relates to military commodities and products, or military-related commodities or products covered by the Goods Review List (see S/2002/515) and the amendments thereto contained in annex A to resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

- (i) 53.034 per cent to finance the export to Iraq of medicine, health supplies, food, and materials and supplies for essential civilian needs. In follow-up to resolution 1302 (2000), this was increased to 54.034 per cent and resolution 1330 (2000) authorized a further increase, to 59.034 per cent, less the payment referred to in (vi) below;

(ii) 13.0 per cent to complement the distribution by the Government of Iraq of imported goods by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern governorates of Iraq, Arbil, Dihouk and Suleimaniyeh;

(iii) 2.215 per cent to meet the operational and administrative costs to the United Nations;

(iv) 30.0 per cent allocated to the Compensation Fund established pursuant to Security Council resolution 705 (1991). Pursuant to resolution 1330 (2000) this percentage was decreased to 25.0 per cent;

(v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission established pursuant to Security Council resolution 1284 (1999) which replaced the special commissions established pursuant to Security Council resolution 687 (1991), to meet operating costs;

(vi) A maximum of \$10 million every 90-day period to be allocated to the escrow account established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999), the Council decided to suspend payments to this escrow account for an initial period of six months from 17 December 1999. In resolution 1302 (2000), this suspension was extended for a further 180-day period and the allocation transferred to (i) above. In resolution 1330 (2000), the allocation of a maximum of \$10 million every 90 days was reinstated from 6 December 2000.

(m) Notwithstanding the periods for the sale of Iraqi oil as authorized by the Security Council, financial statements I, II and III (United Nations escrow accounts) are prepared every six months.

(n) Included in financial statements I, II and III (United Nations escrow accounts) are details relating to the humanitarian activities and related operational and administrative costs that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the programme in December 1996 to mid-2000, implementation costs on actual expenditures incurred by agencies for activities associated with the purchase of humanitarian goods for northern Iraq were charged to the "Humanitarian activities in Iraq" account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the "Administrative and operational costs" account. In mid-2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the "Administrative and operational costs" account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid-2002, the Secretariat reverted to the earlier treatment, whereby direct costs of implementing the programme in northern Iraq were charged to the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment, whether the work was done by an agency itself or contracted out. In 2003, when agencies began implementing various aspects of the programme in southern/central Iraq, those implementation costs were also charged to the "Humanitarian activities in Iraq" account, in line with the 2002 decision.

(o) The financial statements of the Compensation Fund (see paragraph (l) item (iv) above) are reported on in a separate volume of the United Nations financial statements.

(p) Expenditure incurred during the biennium 2008-2009 for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

Note 2

Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations adopted by the General Assembly, the rules formulated by the Secretary General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons (see note 3(a));
- (ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;
- (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
- (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
- (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council, or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period 1 July-30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;

(vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2007, the net amount is recognized as income or expenditure every six months in the financial statements;

(vii) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph l, item (iii) below.

(j) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from the evaluation of current-period obligations;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in paragraph k, item (vi) below.

(k) Assets:

(i) Cash and term deposits represent funds in demand deposit accounts and interest bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus/minus any unamortized premium/discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each of the participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending upon availability of cash resources;

(v) Provision for delays in the collection of receivable balances is not made;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Maintenance and repair of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits, which are shown in a separate line on the financial statements. Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the escrow account for humanitarian activities in Iraq remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded, multi-employer defined benefit plan.

An actuarial valuation of the Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, the United Nations is not in a position to identify its share of the underlying financial

position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus the United Nations share of the related net liability/asset position of the Fund is not reflected in the financial statements.

The Organization's contribution to the Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the organizations, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. As at the reporting date of the current financial statements, the General Assembly had not invoked this provision.

Note 3

United Nations escrow accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) (statements I, II and III)

(a) As the United Nations escrow accounts are in a liquidation process (see note 7 below), the going concern assumption is not followed and the financial statements are presented according to the liquidation basis of accounting, which may require realization of assets and extinguishment of liabilities outside the normal course of business. As at 31 December 2009, the escrow account had no assets or liabilities requiring adjustments in their measurement or classification under the liquidation basis of accounting.

(b) Included in financial statements I, II and III are the escrow accounts established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the special account established pursuant to Security Council resolutions 687 (1991), 706 (1991) and 1284 (1999). The escrow account established under resolutions 706 (1991), 712 (1991) and 778 (1992) returned all funds in 2003. As a result there are no further transactions to report relating to this escrow account.

(c) The escrow account administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized by section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwaiti property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991), and of other necessary humanitarian activities in Iraq:

(i) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council adopted resolution 778 (1992) on 2 October 1992 as an alternate means of providing funds for the purposes specified. States in which there were petroleum products owned by Iraq or States in which there were funds of the Government of Iraq representing the proceeds of petroleum sales, paid for by the purchaser

after 6 August 1990, were required to transfer some or all of these funds to the escrow account. In addition, in resolution 778 (1992) the Council urged States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds had been provided, together with applicable interest, at such time when oil exports had taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account had received funds from the proceeds of sale. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds of sale that were transferred back to the accounts of States that had provided the original funds to the escrow account;

(ii) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sale was suspended. The suspension, which was extended for an additional 180 days by Security Council resolution 1302 (2000), was lifted by resolution 1330 (2000) in December 2000;

(iii) In May 2003, the Security Council, in its resolution 1483 (2003), requested that the Secretary General restore funds that had been provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.

(d) The Security Council, in resolution 687 (1991), requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance pending the receipt of payments to the Organization by Iraq in respect of certain activities, and by Iraq and Kuwait jointly in respect of the costs of the Boundary Commission:

(i) Since the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the escrow account. Furthermore, the costs of the Special Commission are met by transfer from the escrow account pursuant to Security Council resolution 986 (1995);

(ii) The Security Council decided, by resolution 1284 (1999), to establish the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC). The responsibilities mandated to the Special Commission are undertaken by UNMOVIC;

(iii) In its resolutions 1483 (2003) and 1546 (2004), the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC;

(iv) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC and requested the Secretary-General to transfer all remaining unencumbered funds to the Government of Iraq within three months, after returning to Member States at their request contributions made by them pursuant to paragraph 4 of resolution 699 (1991).

Note 4

Independent Inquiry Committee into the United Nations oil-for-food programme

(a) In April 2004, the Secretary-General appointed a high-level, Independent Inquiry Committee to investigate the administration and management of the oil-for-food programme from its inception to its transfer to the Coalition Provincial

Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents as well as contractors, including entities that had entered into contracts with the United Nations or with Iraq under the programme. By its resolution 1538 (2004) of 21 April 2004, the Security Council welcomed the inquiry. The Independent Inquiry Committee completed its investigation on 27 October 2005 and issued its final report.

(b) Effective 1 January 2007, the Independent Inquiry Committee wound up its operation, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office is being performed by the representative designated by the former members of the Committee and his or her designees. In September 2008, the Secretary-General approved the recommendation of the representative of the Office of the Independent Inquiry Committee to extend the mandate of the Office until 31 December 2010.

(c) The costs of Independent Inquiry Committee were met from funds allocated for the administrative and operational costs of the programme. Expenditures during the biennium 2008-2009 were as follows:

(In thousands of United States dollars)

Salaries	334
Premises	75
Miscellaneous supplies and services	315
Total	724

Note 5

Operating reserves

"Humanitarian activities in Iraq" account

(a) An operating reserve of \$126,660,000 was established as of 31 December 2005 under the "Humanitarian activities in Iraq" account, to ensure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General, recalling that the United Nations had no indemnification from the Government of Iraq on the funds that had been transferred to date to the Development Fund of Iraq, informed the Security Council that until the issues of claims from suppliers were resolved, and if there was no objection from the Council, an amount of \$187 million would be held as a reserve for any unanticipated claims from suppliers. In a letter dated 11 August 2006 (S/2006/646), the President of the Security Council informed the Secretary-General that Council members had taken note of the proposed arrangements, and an operating reserve of \$187 million was established.

"Administrative and operational costs" account

(b) An operating reserve of \$21,132,192 was established as of 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the programme are completed. Changes in the reserve since its establishment are summarized below:

(In thousands of United States dollars)

Operating reserves as at 31 December 2005		21 132
Utilization from 1 January 2006 to 31 December 2007	(6 368)	
Transfer from cumulative surplus	9 670	3 302
Operating reserves as at 31 December 2007		24 434
Utilization from 1 January 2008 to 31 December 2009		(4 509)
Operating reserves as at 31 December 2009		19 925
Comprised of:		
Reserves for end-of-service and post-retirement benefits		1 730 ^a
Other reserves		18 195
Operating reserves as at 31 December 2009		19 925

^a Reserves for end-of-service and post-retirement benefits comprised \$38,000 for unused vacation days, and \$1,692,000 for after-service health insurance benefits.

"Monitoring, verification and inspection" account

(c) An operating reserve of \$35,958,863 was established as of 30 June 2007 under the "Monitoring, verification and inspection" account to meet the estimated liquidation costs pertaining to UNMOVIC, including the settlement of debts owed to the Government of Germany, for archiving of documentation, and archiving and staff-related costs. Staff-related costs include accrued liabilities for end-of-service and post-retirement benefits. Changes in the reserve since its establishment are summarized below:

(In thousands of United States dollars)

Operating reserves as at 30 June 2007		35 959
Utilization from 1 July 2007 to 31 December 2007	(30 507)	
Transfer to cumulative surplus	(2 463)	(32 970)
Operating reserve as at 31 December 2007		2 989
Utilization from 1 January 2008 to 31 December 2009		(2 164)
Operating reserves as at 31 December 2009		825
Comprised of:		
Reserves for end-of-service and post-retirement benefits		—
Other reserves		825
Operating reserves as at 31 December 2009		825

Note 6

Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records is shown below (in thousands of United States dollars):

	2009	2007
UNMOVIC	441	1 262
Agencies ^a	805	1 093
Independent Inquiry Committee	279	315

^a Owing to the current situation in Iraq, it was not possible to fully ascertain the value of non-expendable property in Iraq as at 31 December 2009.

Note 7

Future *modus operandi* of United Nations escrow accounts established under Security Council resolutions 986 (1995) and 1284 (1999)

(a) In its resolution 1483 (2003) of 22 May 2003, the Security Council extended the Secretary-General's responsibilities under Security Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The Council requested the Secretary-General to terminate, in the most cost-effective manner, the ongoing operations of the programme, both at Headquarters and in the field, by 21 November 2003, and to transfer responsibility for the administration of any remaining activity under the programme to the Coalition Provisional Authority.

(b) Accordingly, in the three governorates of Northern Iraq where the United Nations agencies were implementing the programme, contracts entered into by the agencies were transferred to the Authority. Similarly, in the 15 governorates of central and southern Iraq, where, after the outbreak of hostilities, agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) By its resolution 1546 (2004), the Security Council decided that in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors should assume the rights, responsibilities and obligations relating to the programme that had been transferred to the Coalition Provisional Authority, including all operational responsibility for the programme and any obligations undertaken by the Coalition Provisional Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods had been delivered, and further decided that, following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors should assume all responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification shall be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of those arrangements.

(d) As of 31 March 2010, the liquidation of the programme continued. All obligations relating to contracts that had not been prioritized in accordance with Security Council resolution 1483 (2003) had been closed, except for those where letters of credit have been retained. Obligations relating to contracts that had been prioritized remain as liabilities of the programme, and the related letters of credit have not been closed.

By his letters dated 8 August 2005 (S/2005/535), 17 October 2005 (S/2005/656), 19 December 2005 (S/2005/807), 10 July 2006 (S/2006/570), 8 December 2006 (S/2007/46), 27 March 2007 (S/2007/241), 19 April 2007 (S/2007/218), 25 July

2007 (S/2007/476), 7 December 2007 (S/2007/725), 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318), 25 July 2008 (S/2008/492), 1 May 2009 (S/2009/230) and his report dated 27 July 2009 (S/2009/385), the Secretary-General has kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit and of the slow progress being made.

In a letter dated 29 February 2008 from the President of the Security Council to the Secretary-General (S/2008/140), Council members called upon the Working Group, which comprises the Ministry of Foreign Affairs of the Government of Iraq, the Central Bank of Iraq and the Secretariat, to continue its efforts to resolve all outstanding issues and requested a further comprehensive report by 15 March 2008. Following the Secretary-General's recommendation in his letter of 11 March 2008 (S/2008/175), the Working Group reviewed the situation in early May 2008 and the Secretary-General provided a progress report on 9 May 2008 (see S/2008/318). In a letter dated 23 May 2008 from the President of the Security Council to the Secretary-General (S/2008/341), Council members requested that the Working Group reconvene in the month of June 2008 with a view to receiving an updated report in July 2008. The Working Group held a meeting from 27 to 30 June 2008 to address and resolve outstanding issues.

The Secretary-General, through his letter dated 25 July 2008 (S/2008/492) and his report dated 27 July 2009 to the Security Council (S/2009/385), provided his recommendations and the report of the Working Group meeting that was held in June 2008. As a result of the efforts of the Working Group, the number of outstanding letters of credit has been reduced to 69 as of 31 December 2009.

(e) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC, pursuant to which an operating reserve to meet liquidation costs was established (see note 5). Unencumbered funds in the amount of \$25,104,523 were transferred to the Development Fund for Iraq on 28 September 2007, and further sums of \$875,285 and \$2,548,000 on 28 February 2008 and 9 December 2008, respectively.

(f) From the adoption of Security Council resolution 1483 (2003) up to 31 December 2009, a total amount of \$10.42 billion has been transferred to the Development Fund for Iraq. That amount includes \$5,980,121 transferred during the biennium 2008-2009. The remaining surplus funds will be transferred to the Development Fund for Iraq in accordance with the provisions of Security Council resolutions 1483 (2003) and 1546 (2004) and such guidance as the Security Council may provide.

Note 8 **Contingent liabilities**

Under the terms of Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in carrying out the activities of the programme are to be transferred to, and become the responsibility of, the Authority, which has since been succeeded by the Government of Iraq. There may be some circumstances where such transfer is not possible and any liability and related fees will need to be met from operating reserves of the programme (see note 5). One arbitration case regarding a claim of \$4.6 million involving one of the specialized agencies of the United Nations system, which was previously disclosed as a contingent liability, has

been resolved in favour of the programme. In addition, three letters of credit in the amount of €3.4 million (equivalent to \$4.9 million), which were cancelled, were identified to have claims of delivery made prior to the expiry. Should the programme ultimately be required to absorb all or a portion of these claims, they will be met from operating reserves (see note 5).
